REALITIES OF 1959 SECURITY MARKETS

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

Special Preview Issues
Part 1

JANUARY 3, 1959

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THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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Cover Illustration: An eagle clutches a bolt of lightning, symbolizing the strength and rapidity with which the U.S.A.F. Air Defense Command is prepared to fulfill its mission of protecting our homes and country. Art Work-Courtesy of General Dynamics Corp.

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What Will Tomorrow's Telephones Be Like?

PICTURE OF TOMORROW. Will tomorrow's telephones be smaller and lighter and specially designed for each room? Will the dial, mouthpiece and receiver all be in the unit you hold in your hand? Will you be able to get your party just by pushing buttons, instead of dialing? We're working on many types and testing them at Bell Laboratories and in homes and offices.

This country is going to be needing a lot more communication service in the years ahead. Matter of fact, the need is with us right now.

Just the great increase in population (there will be 40,000,000 more people in the U. S. by 1970) means that we'll be stepping right along to keep ahead of our customers' needs.

The greatest progress will come, as it always has, from the Bell System's unique concept of unified research, manufacturing and operation that has given this country the best telephone service in the world.

A vital part of this concept is always to look ahead and not back. Many new things are already at hand or in sight.

New instruments will provide an ever-widening choice for our customers. Improvements in transmission and the development of electronic switching will make our services faster and more versatile.

There are some tremendous possibilities in the use of telephone facilities for enabling business machines to communicate with each other—no matter how many miles apart. Great volumes of data of all kinds can be transmitted automatically over telephone lines at high speed.

We also have the prospect of providing picture channels for many purposes, in addition to the present networks for television broadcasting.

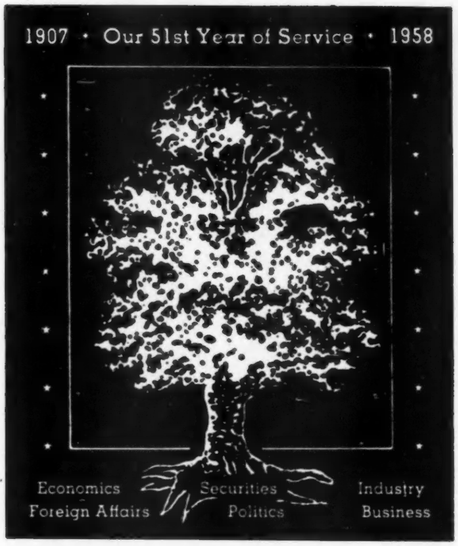
How far we go, and what we are able to do, depends on money. To make the best progress and apply it to the greatest advantage of everybody, the Bell Telephone Companies must be in good shape financially.

In all lines of business it is the companies whose earnings are good that are able to make the best products, provide the best service and give the best values.

BELL TELEPHONE SYSTEM

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

A STRATEGIC VICTORY . . . No more in the eyes of the world will the United States take second place to Russia in scientific achievement. The communication marvel which enabled President Eisenhower to send a message from outer space tells the world the story of American genius and accomplishment that Russian propagandists have sought to decry ever since the launching of Sputnik.

But more than that, the people of the world — especially the sophisticated and subtle minded men in the chancelleries of the various countries — will speculate as to whether we have been holding back and letting Khrushchev boast his head off — and wonder what else is up our sleeves that they do not know about.

And that is all to the good — because it can tell the Russian strategists of the incalculable imponderables involved in dealing with us — and how great a risk the launching of a war against the United States could be. And this pause in their thinking may give the world a respite, and usher in the era of peace and goodwill that all mankind has been clamoring for.

There is no victory in war. It is futile as a means for solving problems, for it only raises them. Any student of history knows that. The rise of nations has always come about through great effort, imagination and hard work — and the fall through the egomania of adventurous men with a lust for power, living at a time when great prosperity and loose thinking had set in.

I often think that history should be a basic and compulsory study, because it gives a greater insight into individual and mass psychology that cannot be grasped in a single lifetime.

In our story on Alaska as the frontier of our national defense (appearing in this issue), you will see how frequently far-sighted men are belittled by the many who lack discernment. Seward's purchase of Alaska was called "Seward's Folly". What Homer Lea envisaged in 1909 of the strategy for war in the Pacific, was amazingly prophetic and almost a blueprint of events as they took place in our war with Japan. The records are replete with similar instances where vision and far-sighted men have been ridiculed and persecuted — take Billy Mitchell and Hap Arnold among others.

Grand strategy has not been our forte. But the United States is a country fortunate above all others, for in our moments of greatest peril the Almighty and destiny have come to our rescue. May we always deserve it.

And, now that we are again holding the center of the stage in world prestige, let us take advantage of the situation by showing the peoples of the earth that we possess the capacity to meet the Russian threat, and bring peace to the world.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907—*"Over Fifty-one Years of Service"*—1958

With the Editors

As WE LOOK into 1959 on the background of what has taken place these past several years, and the visible and discernible trends established in 1958 that can be projected into 1959, we see great readjustments in the making.

This is not surprising, for the revolutionary changes since the end of World War II have been world-wide, both economically and politically, with the new pattern of revolt under military dictatorships. And each new government in the saddle has created new problems for the United States—for the West.

In our own country, the Civil Rights issue is disrupting the relationship of some Southern states with the Federal Government, even to the point where hot-heads are calling for secession, indicating the state of mind so prevalent today. This is all grist for the propaganda mill of the Communists in their efforts to alienate Afro-Asian nations from the United States, and can take a serious turn, although it is hard for any of us to believe that such a thing can happen to us in this country.

Money And Finances

The financial position of the countries around the world is so shaky that it opens the door to political opportunists. France has been the first to devalue, but, fortunately, here they have a strong leader in De Gaulle, who is likely to accomplish for France what Poincare achieved after World War I.

In the coming issue of January 17th, our story, "International Solvency", will cover the position of the various countries in South America, the Far and the Middle East, and in Europe where the Common Market goes into effect January 1st. It will tell you what to expect in the individual countries.

In our own country the position of our national debt and our budget is in a fluid state. But it is interesting to note that this is recognized by both the Democratic and Republican parties. And, it is clearly shown that despite the politics involved in preparation for the 1960 presidential election, there is likely to be less partisanship regarding the budget and government spending than would normally be expected, because the value of the dollar is not a political issue, but a matter of national interest and importance that involves the security of the state of the nation.

In our story, "$80 Billion Federal Spending Every Year—For 5 Years", we called attention to the impact this would have on the value of the dollar, and the eventual prospect of a 25¢ dollar if the proper steps were not taken. Our legislators, whether they be Democrat or Republican, are not likely to ignore this handwriting on the wall.

There are many reasons why our lawmakers will find it the better part of valor to think in terms of today's realities rather than politics on this key question. The Christmas greetings from Franz Pick, world famous currency expert, read, "Seasons Greetings . . . with the faint hope that the American Dollar will not be devalued in 1959, thus averting a global wave of other state bankruptcies and the resultant destruction of the assets of all those who believed what their governments told them." Interesting indeed—but not unusual coming from this arch skeptic.

Taxes

There is a certainty that new taxes will be levied, and if the gasoline tax suggested by New York State Governor-Elect Nelson Rockefeller is any clue to what lies ahead, I would say that the sophisticated and able men in the oil industry recognize the need for making sacrifices at this time. Their ready acceptance of the situation is bound to set an example to others. I expect we will hear fewer protests from special interests and pressure groups on the matter of excise taxes as compared to an additional income tax—the lesser of two evils.

Foreign Trade Agreements And Concessions

Repudiation of trade agreements and concessions reached a high-water-mark in 1958—with the oil industry on the hot seat. Up to now, there was a lot of give and take in the Middle East, but the situation is bound to deteriorate as a result of the completely unexpected change in Venezuela's tax laws, which is bound to hurt the more than 50 American oil companies with interests there. It is surprising that this step, which actually breaks a promise, should have been taken, for it is also likely to have a very adverse effect on Venezuela itself.

The new decree, issued a few days ago raised the combined royalties and taxes to be paid to the government from 50% to at least 60% of the net profits of most oil companies in Venezuela. The consequences of this unilateral action, which was taken without any advance consultation with the companies concerned, is three-fold.

First, it has made Venezuela the first major oil producing company to break through the time-honored 50-50 split of profits between company and country which has prevailed throughout the world oil industry for the last ten years. (Several Middle East countries did recently go beyond the 50-50 split in concession agreements on *new*, and as yet unproductive areas, but *no existing contract* has been changed.)

There can be little doubt that other oil countries will now tend to follow Venezuela's lead and also insist on higher profits. This might well lead to a worldwide upward readjustment of oil taxes. In turn, this will result either in higher oil prices or lower oil profits, depending on the economics of the oil market.

Venezuela

The second consequence is that the move has seriously contributed to undermining the confidence of actual and potential private foreign investors. This stems not so much from the expected loss of income as a result of the higher tax, but from the manner in which it took place.

The Provisional Government of Venezuela—following the revolution of last January—had solemnly and publicly assured the foreign oil industry that it would make no changes in the existing laws.

This assurance has been reiterated several times since then. Yet just three weeks before this government was to be replaced by the newly elected administration of President Romulo Bentancourt, it suddenly decided to break its promise.

Probably the reasons were of an international political nature, namely, to embarrass the incoming president. But this does not change the fact that it was a clear breach of faith with the foreign oil companies, which in the last two years had spent nearly $700 million just on cash bonuses for new concessions, under the assumption that they could keep at least half of the earnings made from these investments. The fact the tax increase is retroactive to January 1958 is hardly designed to pacify the companies affected.

The ultimate fact of such actions can only be to discourage the free flow of funds from the capital-exporting to the capital-importing nations of the world. In the long run, the loss of such a development to Venezuela would be far greater than the short-run gain to be derived from the increased tax.

Labor

For the first time there are signs of recognition among the rank and file, as well as the great mass of citizens of this country, that labor unions have over-reached themselves in their demands and have shown a tendency to ignore the economic well being of this country, and the consideration due their fellow citizens. The airlines strike, which discommoded thousands of people on the demands of a wage rate of $30,000 a year plus for pilots, has aroused great antagonism against the unions. Only a limited number of individuals earn that kind of money, and the people in this bracket are men who have spent most of their lives as executives or have built up their own businesses after years of education, training and effort.

When demands are out of all rhyme or reason public indignation is bound to let off steam. If it results in the kind of labor legislation that will prevent the abuses to which we have been subjected for much too long, we prophesy the members of the 86th Congress will be among the most popular individuals in the country.

Some mighty important industrial labor contracts are coming up in the year ahead, including steel and rails, and they will be coming at a time when labor leaders will have to show their hands—whether they are for this country—or only looking after themselves.

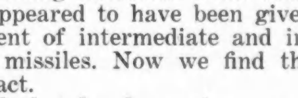
New And Less Costly Missile Program?

The whole concept of military procurement may be altered by reason of discoveries made by the Pentagon in a series of tests, the results of which have just been disclosed. In the concentration of thought and effort on firing satellites from fixed bases, little attention appeared to have been given research and development of intermediate and intercontinental ballistic missiles. Now we find the contrary has been the fact.

It has been disclosed that bombers of more or less conventional military design are capable of unleashing ballistic missiles with accuracy up to 800 miles. This would permit firing from outside Russia's early warning line. The affect of these discoveries is to lessen dependence and propagandistic attention on satellites fired from fixed bases. It could mean a return to emphasis on plane procurement as the major delivery system. One of the principal advantages of this, in addition to the stepped-up defense, is the fact that several companies already are fully tooled to supply the equipment. If this is realized, there will be less need for research, or emphasis on development.

With The Editors

It is clear that we have the talent—the genius—and the power to solve our problems. No nation is better endowed. We have no need to fear Russia or anyone else. If we all work together in 1959 we can set a new base from which to rise to even greater heights. It will mean intensified effort and a little common sense.



Editor — Publisher

Realities of 1959 Markets

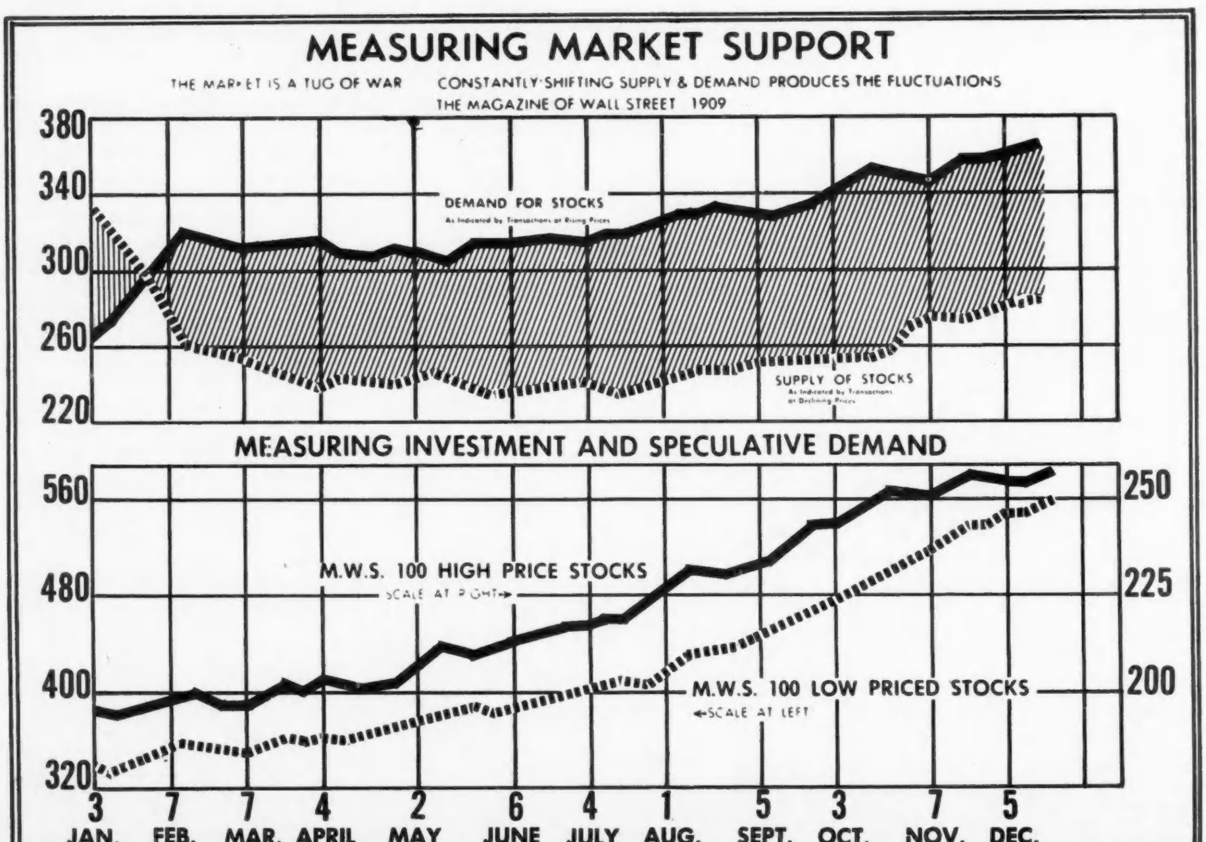
Never before have so many people been so bullish on stocks, so bearish on the dollar. The period ahead is bound to be one of monetary adjustment. The supporting factors do not suggest anything like a duplication of the 1958 rise in 1959. Stock prices are high. More irregularity and deeper corrections probably are ahead. Caution in new buying is in order.

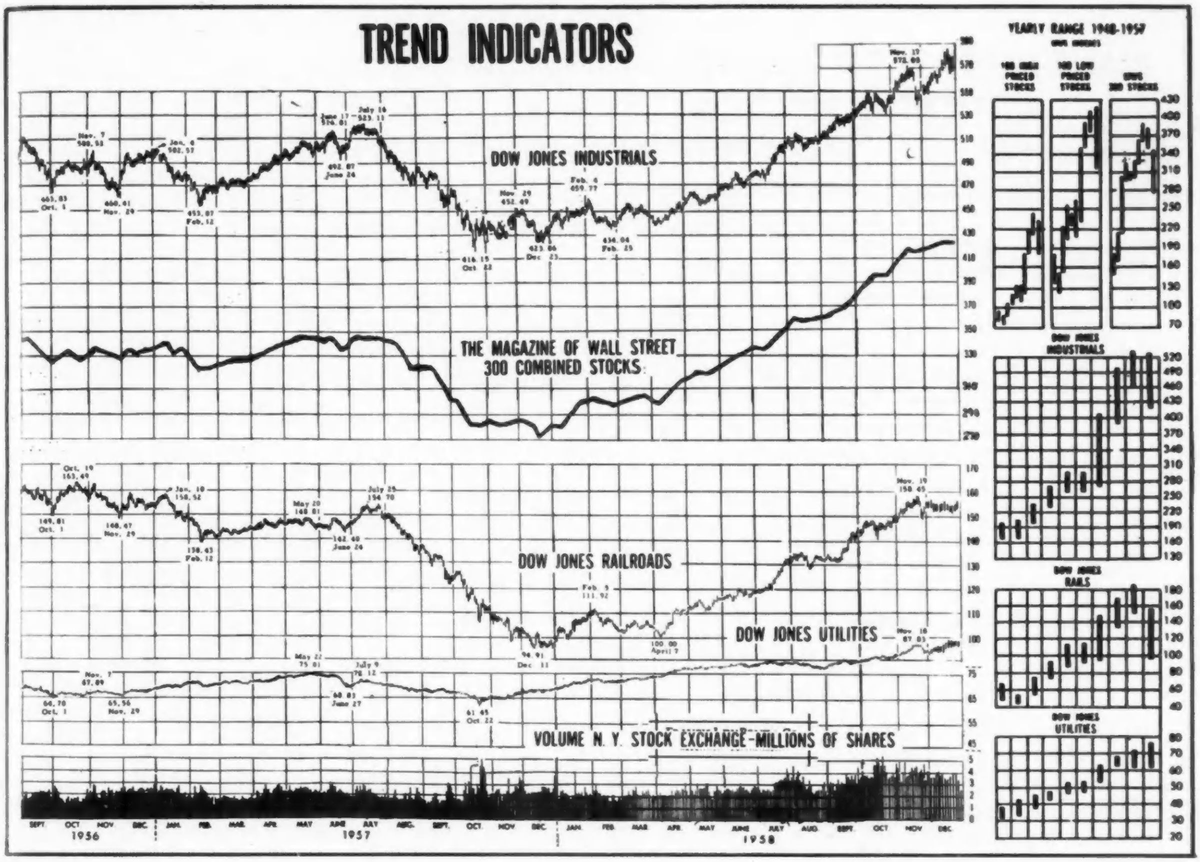
By A. T. MILLER

Present indications suggest that the 1959 changes in over-all business activity, corporate earnings, dividends and the purchasing value of the dollar probably will be moderate; and that the variations from quarter to quarter may be fairly small. But it does not follow that the stock market's performance will be equally moderate.

To a major extent, mass psychology makes the market. Whatever the facts, investors and speculators see them through rose-colored glasses at times, dark glasses at other times. But the extreme swings of sentiment set up their own correction in due time, for the market cannot completely divorce itself from economic reality. Verging into 1959, the prevailing psychology is almost the opposite of what it was a year ago. Then it was cautious and apprehensive. The question was when would the business recession end, how much damage might it do to corporate earnings, and whether a slow recovery might begin late in the year. There was no rush to buy stocks at levels far under those now prevailing.

Today, bullish forecasts abound on the prospects





for 1959—or on the "growth potentials" of 1960, 1961 and so on into the vague hereafter. The debate is not upside versus downside, but merely how much on the upside. At the high level of optimism already reached, there is a basis for some investment and speculative disillusionment simply because stock prices have already gone so far toward discounting the highest 1959 hopes. Hence, if the market has a net 1959 gain, it figures to be much smaller than the exceptional 56% indicated at this writing for 1958, as measured by our index of 300 stocks.

It could be less than the gain in corporate earnings. In this view, the market's 1959 interim swings will be more violent than those of 1958; and the averages will travel a greater total up-and-down mileage to make a more limited distance.

The Business Prospect

This is the season of 1959 forecasts by economists, business tycoons, brokers, investment specialists, etc. The variations in expectations are not too wide. For that reason, the consensus may be suspect—as anything approaching unanimity usually is — yet it seems reasonable *as things look now.* Of course, things can change; the unexpected can happen; the eye cannot see around all the corners.

For what it might be worth, the consensus puts the 1959 average level of the Federal Reserve Board's index of industrial production in the vicinity of 146, against an estimated 133 for 1958, a gain of roughly 10%; *but of little more than 2% over the production levels of 1957-1956.* It is thought that 1959 gross national product may be around $468 billion, a new peak and a rise of more than 7% over 1958's estimated $436 billion. Increases on the order of roughly 5% to 7%, to new full-year records, are predicted for personal income, wage-salary payments, government spending (Federal, state and local), and consumer spending. It is thought that the 1959 change in business inventories may be on the plus side by $2 billion to $3 billion, against a 1958 shrinkage of more than $5 billion, or a shift on the order of $7-$8 billion.

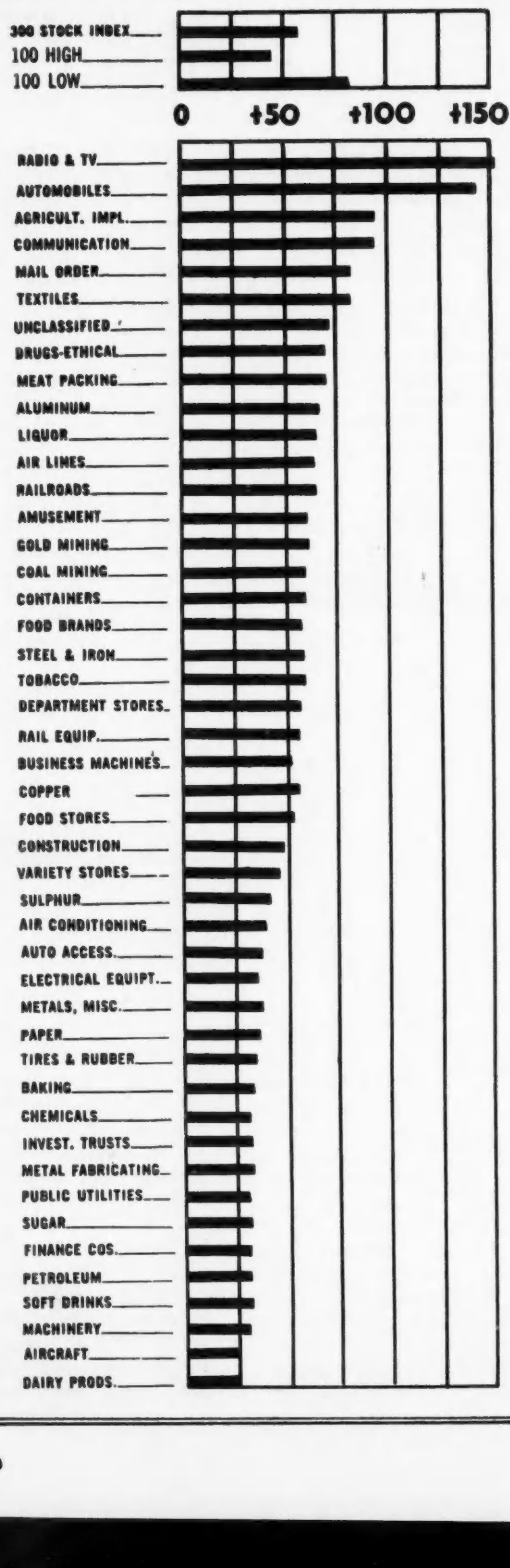
Earnings fall much more than sales in a recession, and tend to improve more greatly than volume at least in the earlier phases of a recovery, when there is still slack in capacity and employment; and business managers continue to stress economy and efficiency, rather than expansion. Thus, in the 1958 third quarter, total manufacturing profits gained 17% over those of the second quarter on a rise of about 2% in sales, as reported jointly by the Federal Trade Commission and the SEC.

Manufacturing earnings, of course, are more volatile than total profits, which include results of utilities, the finance field, trade, etc. On the basis of the projections heretofore cited, there might be a 1959 gain around 10% in profits, over 1958's reduced level; and a gain of perhaps 5% in dividends, with the latter restricted by the present abnormally high payout rate.

MARKET ACTION OF STOCK GROUPS

Percentage Changes

DEC. 27, 1957 TO DEC. 19, 1958



Earnings on the Dow industrial average fell from about $36 a share in 1957 to an estimated $28 or $29 in 1958; dividends from about $21.60 to an estimated $20. We can see possibility of 1959 earnings in the vicinity of $34-$35 on the average; and dividends in the vicinity of $22—neither quite back to best past levels. On these assumptions, the average is currently priced around 17 or more times earnings for a year ahead. Excluding periods of depressed earnings, that is the highest ratio in a great many years. On the dividend projection, current yield on 1959 cash payments figures about 3.8%. That is, of course, less than the current bond yield.

Against the general undervaluation of stocks that prevailed much of the time between 1947 and 1954, we now have over-valuation, as judged by reasonable, time-tested standards. Just by way of illustrating how far the market has risen above the periodic bargain levels of the past, here are approximate industrial stock yields at some past lows: 1953, 6.2%; 1949, 7.2%; 1947, 5.6%; 1942, 8.4%. The peak valuations reached in late stages of past bull markets have been equalled or exceeded in fairly short order since last April because the low point of adjustment set in late 1957 stands as the highest "bear-market" low in history. The yield at that low was around 4.6%. Yield comparisons reflect the basically increased popularity of common stocks with individuals and institutions; and also the strong and unsound extension of speculative tendencies in recent months. To what extent fear of dollar devaluation is responsible can be gauged by reports of a raise in the gold price to $50 an ounce.

Speculative Excess Undeniable

Despite the exceptions among some stocks aided by sharp profits improvement, the biggest market rise centers in low-priced cats and dogs which are more gambles than speculations. These low-grade issues have had the most spectacular play in many years. In every previous instance of such action—1928-1929, 1936-1937 and 1945-46 — the cats and dogs fell out of bed, and most stayed "dead" thereafter for periods running into years. People who have forgotten past experience, and novices unaware of the risks in inferior stocks, are going to get some rude shocks.

As charted on this page, our index of 100 low-priced stocks rose roughly twice as much in 1958 as the index of 100 high-priced stocks. That is only a partial measure of the increased role of speculation in this market, since the low-priced stock index includes many issues outside of the cat-and-dog class. Variations in the other stock-group indexes have been wide, reflecting differences in speculative-investment popularity and in industry prospects. No general conclusions can be drawn. In order of percentage gain, not all of the more speculative groups fared better than average; nor all of the more conservative groups worse than average. Two speculative groups — TV-Radio and Automobiles — top the list; but two other speculative groups — machinery and aircraft — stand near the bottom of it. As always, the new year will bring important shifts in market selectivity along lines not yet defined, and recognizable only as they begin to form. Watch future issues of the Magazine for guidance.

Sound Advice for Investors in Today's Markets

The advice given below is in large measure reprinted from our Jan. 4, 1958 issue in which Mr. Miller made some observations on the basic attitudes that investors should adopt in facing up to their investment problems. The advice given to readers then holds just as good today and is worth taking.

1. There have been only rare instances in our lifetime when a "sell-everything" policy would have been justified, with 1929 the outstanding case. Despite the exceptions that stand out on hindsight, the margin for error in timing is so great that far more money has been made by long-pull retention of good stocks than by in-and-out moves.

2. But where unusually large profits exist it would certainly be practical in many cases, and add to one's peace of mind, to sell enough to write off at least some of the original cost — leaving you in a risk-free position.

3. In this kind of a profit-taking write-down or write-off of original costs, net profit taken should be employed mainly in short-term bonds or saving deposits, pending probable adjustment that will make common-stock prices more attractive generally. You will defeat the object of a profit-taking write-off operation if you put realized profits into speculative common stocks at this stage.

4. It is foolish to let reluctance to pay the capital gains tax freeze you in stocks which are too high and should be sold. It should be considered an expense of investment, like the corporate tax is a business expense.

5. If you want to have a reasonably good chance for satisfactory investment results, a primary requirement is to think less about "the market" and more about opportunities in individual stocks. There are still not a few of these.

6. If you hold stocks that have not performed well in the market and which seem to have little likelihood of so doing within a reasonable period, you can make substitutions, provided you "upgrade" your purchases and do not try to make up for past losses by buying even more risky issues.

7. A good resolution to make at this season and to stick to is: always avoid assumption of too much speculative risk. Few can soundly afford to risk more than a small portion of total funds in speculation. Before assuming above-average risk in hope of gain, consider your family responsibilities and weigh the consequences of possible losses. When in doubt, always lean to the conservative side in your compromise decision.

8. You should guard against inadequate diversification of stock holdings among companies and industries. The more "eggs" you have in one basket, the greater the chances for breakage. Adequate spreading of risks does not require large funds, nor dispersal of funds among a great number of stocks. Indeed, there is no safety in mere numbers. As few as two or three well-chosen equities of major, broadly-based companies can adequately serve minimum diversification needs.

9. When stocks go against you, it will pay more often than not to be patient with the basically good ones but not with the speculative ones. The sooner you take losses in inferior stocks, the better. There is sense, with qualications, in the old rule to "let your profits run". Let them run as long as the valuation is within a range of reason. It is one thing to be a hog and overstay the market; another to be too quick to take small profits and lose a good position.

10. Avoid the temptation to reach too much for income. A stock would not sell at a very high yield, if it were not speculative; nor at a very low yield, in most cases, if it did not have growth potentials. Income-minded investors should pass up both the 10% and 1% stock yields. There is plenty of leeway for compromise and sensible selections in the yield range of, say, 4% to 5% at present. Few stocks with yields much over 6% can qualify for conservative income accounts.

The Main Uncertainties

The sharpest part of the 1958-1959 business recovery almost certainly has been seen, with the production index up 17 points from 126 last April to 143 in November. That does not leave a great deal, if the expectation of an average of around 146 for 1959 is right—or if we get a new monthly peak as high as 150. The basis for a new boom, surpassing the 1955, 1956 and 1957 levels as widely as they exceeded earlier business peaks, is not in sight and awaits development of fresh forces which may be an extensive time in the making.

Much depends on 1959 demand for automobiles; and reliable clues on this may not be had for the next two months. Present hopes of the "Big Three" may or may not be realized. One thing can be noted: introduction of the new "Big Three" models has not reversed the trend of competitive gain by small, economy cars.

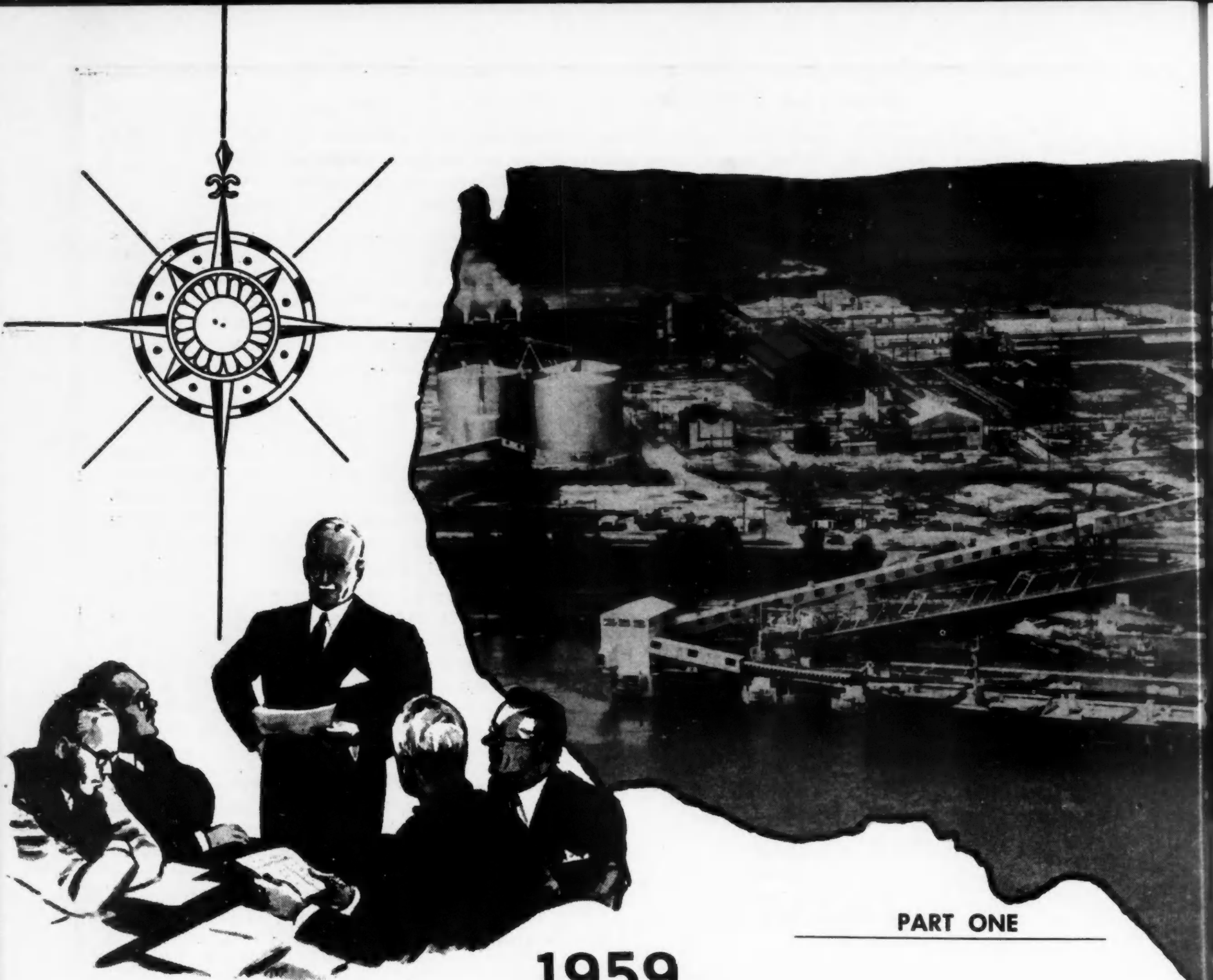
Some Slowdown Indicated

Credit factors are bound to put brakes on recent strong gains in housing contracts and starts. That may well bring provision of fresh stimulants by the new Congress, but they would take at least a little time to get results. The biggest part of the shift from business inventory liquidation to accumulation has no doubt been seen, and might be substantially completed by Spring. The fastest part of the rise in Federal spending, at least for the current fiscal year ending next June 30, has been seen. Perhaps the new Congress will push spending as "liberally" —and improvidently—as most people now expect. Perhaps not. Time will tell.

The best that can be expected for plant and equipment outlays is the possible beginning of a mild improvement some time during 1959. The major part of the rise in consumer spending will be for soft goods and services. It therefore looks like this for 1959 and into 1960: no capital-goods boom, no consumer durable-goods boom, no business inventory-expansion boom.

Crises And Contingencies

Some of the most important, perhaps vital, developments of 1959, are unpredictable. Will the approaching Berlin crisis be solved without war? If so, where will the next foreign crisis come and what might it be? What will be the outcome of at least two years of domestic *(Please turn to page 384)*



PART ONE

1959
Outlook for Leading Industries
—Which offer best prospects

By GEORGE W. MATHIS

A YEAR ago, the domestic economy was unmistakeably heading into recession. Industrial production, after holding barely steady through a large part of 1957 was beginning to slide; industry's order backlogs were showing definite signs of erosion; steel production had slipped to 67 percent of capacity in the final quarter of the year; and other basic industries such as metals, paper and oil were illustrating the evils of excess capacity when demand begins to ebb.

Now, just one year later, this amazing American economy has not only weathered its worst post-war shock, but is well along the way to recovery. For investors, however, the current resurgence of economic activity offers no respite from the ever present need to constantly appraise and reappraise industry trends and the position of individual companies within each group.

This is especially true at the present time because the recovery, though impressive, has so far been a highly selective one in the corporate profits column. The recession, in fact, has "separated the men from the boys", in many industries, rewarding those companies that have shown an ability to use the lull in economic activity to mend damaged fences and to reduce costs—while those that have failed to measure up find themselves with smaller shares of the markets and weakened profit structures.

If we could expect that from now on the economy would just resume the course it traversed between 1947 and 1957, there would be no cause for concern. But this appears a most unlikely prospect. Rather, it seems that we are heading into a period of sustained business activity, but one characterized by less dynamic growth and higher unemployment than we have become accustomed to since the war.

This picture is clearly revealed by the most recent figures released by the government on industry's capital spending plans. It is encouraging to note that by the end of 1958 the long decline in such expenditures had been arrested, and that a slight upturn to an annual rate of $30.2 billion is anticipated for the first quarter of 1959. However, this figure becomes more meaningful when measured against the $37 billion rate at which industry was expanding near the end of 1957. Undoubtedly, a sustained recovery would encourage higher expenditures than are now predicted, but it appears unlikely that in 1959 we will approach record levels of capital outlays.

Outlook for 1959

The capital spending picture is just one aspect of the 1959 economy, however. There are also numerous other signs that the business pickup will be widely divergent in its benefits to the various companies. Consumer spending, for example, though certain to remain high, shows every indication of becoming more and more selective. A recent study of consumer attitudes conducted by the University of Michigan Consumer Research Division, for instance, showed that buyers were more optimistic for 1959, but were highly price conscious—and in fact showed a surprising willingness to settle for second-hand merchandise (especially for cars) where they felt that prices had advanced too far.

On the other hand, the demand for moderately priced appliances appears better than in several years, and in view of the high level of new home construction, the demand should be well sustained throughout the year.

But of perhaps greatest significance in the year ahead will be industry's continued struggle with over-capacity. This is vital not only for the corporate profits picture, but also from the broader social viewpoint of absorbing unemployment. The Federal Reserve Bank of New York recently estimated that the Industrial Production index would have to rise to 155 (it is now 141) before all of our unemployment could be absorbed—and this level leaves no room for the new additions to the labor force expected in the coming year. In other words, unless production rises rapidly, we can expect loud cries from the "welfare-state" advocates to subsidize the unemployed segment of our population.

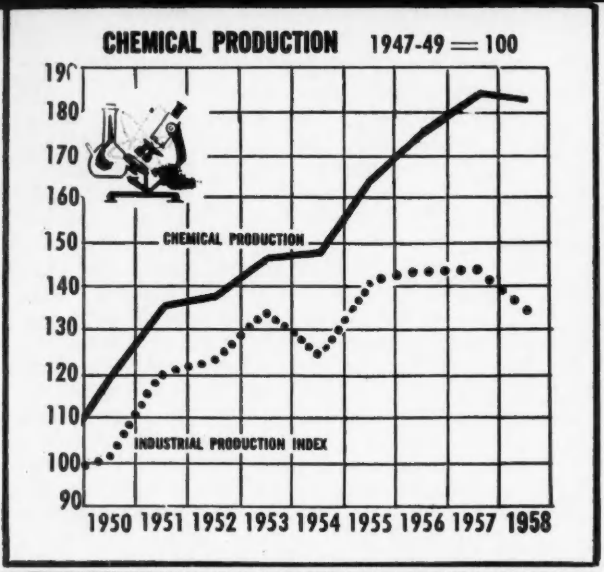
Obviously, 1959 will not be a year of clear sailing. However, it will be probably one in which business will rise, or remain on even keel, as opposed to 1958 which experienced a down trend in the early months. Against this background, the balance of this article, and Part II which will appear in the next issue of The Magazine of Wall Street, will consider the outlook for the nation's leading industries over the next twelve months. From these discussions, the reader will be better able to appraise the prospects for specific companies.

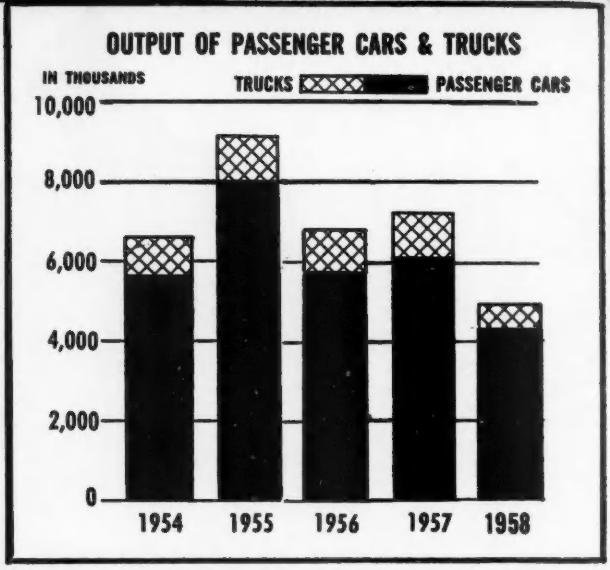
AUTOMOBILES — 1959 shapes up as a slightly better year for the auto industry, but from present indications it will be a far cry from a banner year. On the plus side is the significant fact that dealer inventories are at their lowest levels in several years. Moreover, the unavailability of many models because of production slowdowns and intermittent strikes will throw many sales into 1959's first quarter that would ordinarily have been consummated in the final month or two of 1958. In addition, with the general business picture again on the upgrade, some consumers should be more willing to incur the large costs of a new car.

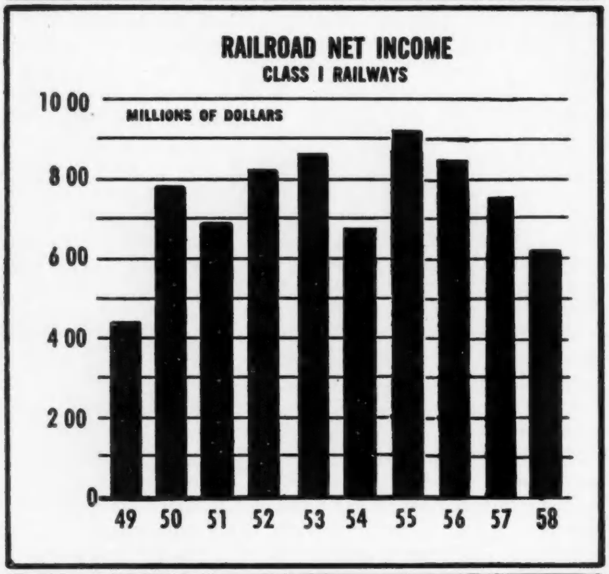
In the profits column, however, 1959 doesn't appear overly promising, for many members of the industry. General Motors showed its mettle last year by coming through in the black while Chrysler and Ford were in the red. Under the circumstances, GM should be able to better last year's record in 1959, but there seems little chance of reaching record levels.

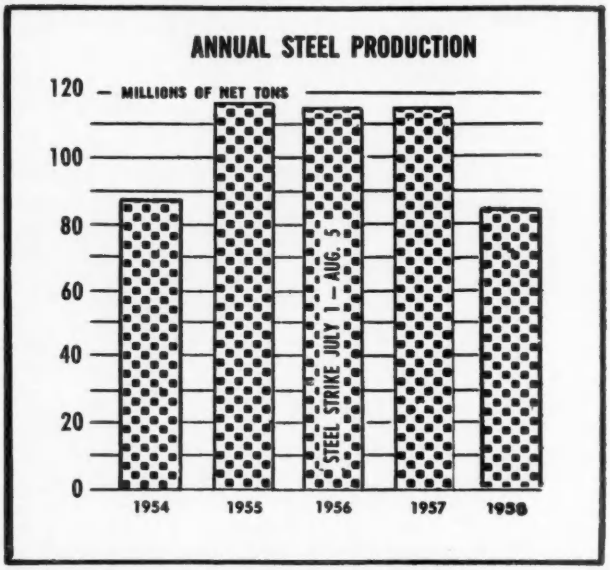
Chrysler, on the other hand, made no significant model changes for this year and may do no better than cut last year's losses while laying the groundwork for a big year in 1960. Ford, however, may do better in 1959, if early model-year reports are any indication.

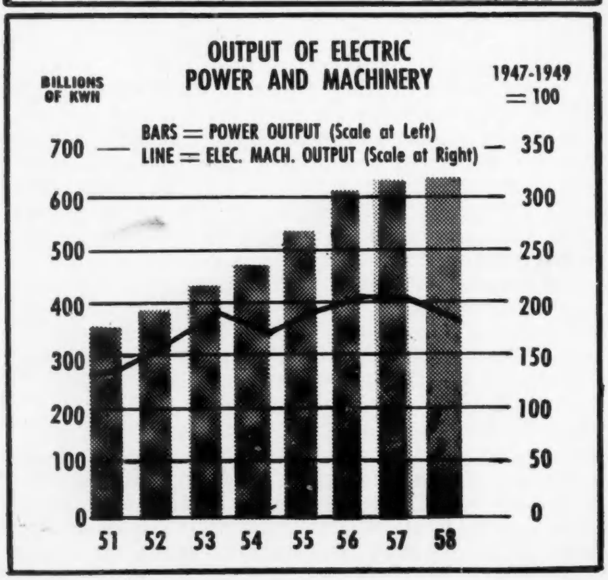
So far the new model Ford has gotten off to a flying start and shows signs of winning some of the Chevrolet market. The hitch in this picture, however, is that Ford has been least troubled by labor strife, while Chevy production has been far lower than expected because of shutdowns. Thus,

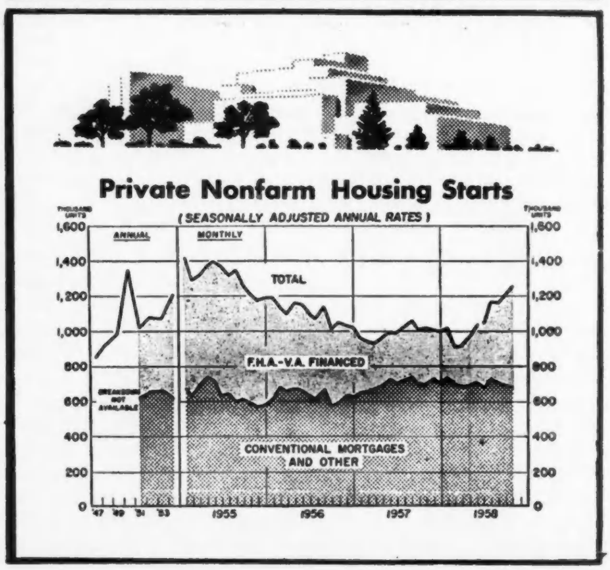

CHEMICAL PRODUCTION 1947-49 = 100
CHEMICAL PRODUCTION
INDUSTRIAL PRODUCTION INDEX
180
170
160
150
140
130
120
110
100
90
1950 1951 1952 1953 1954 1955 1956 1957 1958


OUTPUT OF PASSENGER CARS & TRUCKS
IN THOUSANDS
TRUCKS
PASSENGER CARS
10,000
8,000
6,000
4,000
2,000
0
1954 1955 1956 1957 1958


RAILROAD NET INCOME
CLASS I RAILWAYS
MILLIONS OF DOLLARS
10 00
8 00
6 00
4 00
2 00
0
49 50 51 52 53 54 55 56 57 58


ANNUAL STEEL PRODUCTION
120 — MILLIONS OF NET TONS
100
80
60
40
20
0
STEEL STRIKE JULY 1 — AUG. 5
1954 1955 1956 1957 1958


OUTPUT OF ELECTRIC POWER AND MACHINERY
BILLIONS OF KWH
1947-1949 = 100
BARS = POWER OUTPUT (Scale at Left)
LINE = ELEC. MACH. OUTPUT (Scale at Right)
700 350
600 300
500 250
400 200
300 150
200 100
100 50
0 0
51 52 53 54 55 56 57 58


Private Nonfarm Housing Starts
(SEASONALLY ADJUSTED ANNUAL RATES)
ANNUAL
MONTHLY
TOTAL
F.H.A.-V.A. FINANCED
CONVENTIONAL MORTGAGES AND OTHER
1,600
1,400
1,200
1,000
800
600
400
200
0
1955 1956 1957 1958

it is still unclear whether Ford is out ahead because consumers prefer its new model—or because it is more readily available. The test should come early in the year, however.

American Motors, with *Rambler* production running at full steam seems headed for a record year, while Studebaker-Packard will bear close watching in view of the introduction of its *Lark*, the latest entry in the small car field. All in all, small cars, domestic and foreign, will importantly influence big company profits this year—if they can maintain the 10 percent of the market they captured in 1958. 1960 may witness a swing to small cars by the "Big Three", a move which will put the companies in uncharted waters for a year or two.

TIRE AND RUBBER — The 1957-1958 recession hit most of the nation's tire and rubber companies hard, yet with few exceptions operations have trended upward since the lows were reached in the first quarter of 1958.

In effect, the tire compaines were hit with "the book" during the worst days of the recession. Original equipment sales to the car manufacturers slid by almost 40 percent in the first nine months of 1958 and exports slipped by 20 percent. Replacement sales advanced 5 percent, but even this improvement in the largest segment of the industry's business was not enough to counteract adversities in the early part of the year. Moreover, the slowdown in industrial activity cut deeply into sales of rubber conveyor belts, hoses, chemicals and plastics, which combined account for almost 50 percent of the industry's total sales.

As a result of these early difficulties only Goodyear is expected to show an increase in earnings for 1958, but most of the important companies have demonstrated a rising profits trend in the second half of the year.

The reasons for the better showing since the first quarter can be found in the higher profit margins for replacement tires and the success most of the companies have had in cutting operating costs to the bone. It is significant that, despite the bad start in 1958, almost every tire company was able to maintain its dividends all through 1958 because of their strong financial position (only Lee Rubber omitted its 20¢ extra.)

In 1959 the companies should benefit from the expected improved level of new car sales, while cost controls instituted in 1958 should lead to generally wider profit margins. Most of the stocks have recovered substantially from their lows and as a result are not overly attractive for the short term. For the longer pull, however, diversification into missiles and chemicals should make many of the stocks rewarding holdings.

RAILROADS — Along with rest of the economy the railroads are enjoying a brisk comeback from the recession. There is probably no better evidence of this fact than the sharp recovery rail shares have demonstrated in the market. Moreover, earnings, which are highly leveraged for most of the carriers, are rebounding and appear headed for greatly improved levels in 1959.

Nevertheless, investors should remain aware that the rails can only reflect general business conditions, and better earnings will depend on a sustained level of economic activity throughout the year. Traffic—or carloadings—is only one segment of rail profits, however. Costs and rates must also be considered.

Fortunately, at present, the outlook for all three is fairly clear. Coal, ore and steel shipments all appear to be headed upward in 1959, and auto and appliance shipments won't have to show much improvement to top their low levels of 1958. Moreover, the recent repeal of the 3 percent Federal excise tax on rail freight should help improve carloadings.

Costs will also rise in 1959. Wage rates account for over 60 percent of operating expenses and these must rise because of automatic wage increases in existing contracts. In addition steel, coal and oil prices will be higher in 1959. But of greatest importance—and the factor most difficult to determine—will be the level of spending for upkeep and replacement of equipment in the year ahead. For their restricted financial position forced economies in maintenance of their equipment in 1958.

The rate structure for freight appears clear. The industry will seek no across-the-board increases, and indeed it may press for selective reductions. But passenger rates will continue to be a sore spot. The problem of deficits from passenger operations is now so widely recognized that some rate increases appear virtually certain. Whether they will be sufficient to place passenger operations on at least a "break-even" basis is doubtful, however. On the other hand, Chicago, Rock Island & Pacific is making a nine month test of reducing by 28% first-class and Pullman fares, to see if this will spur volume of passenger traffic.

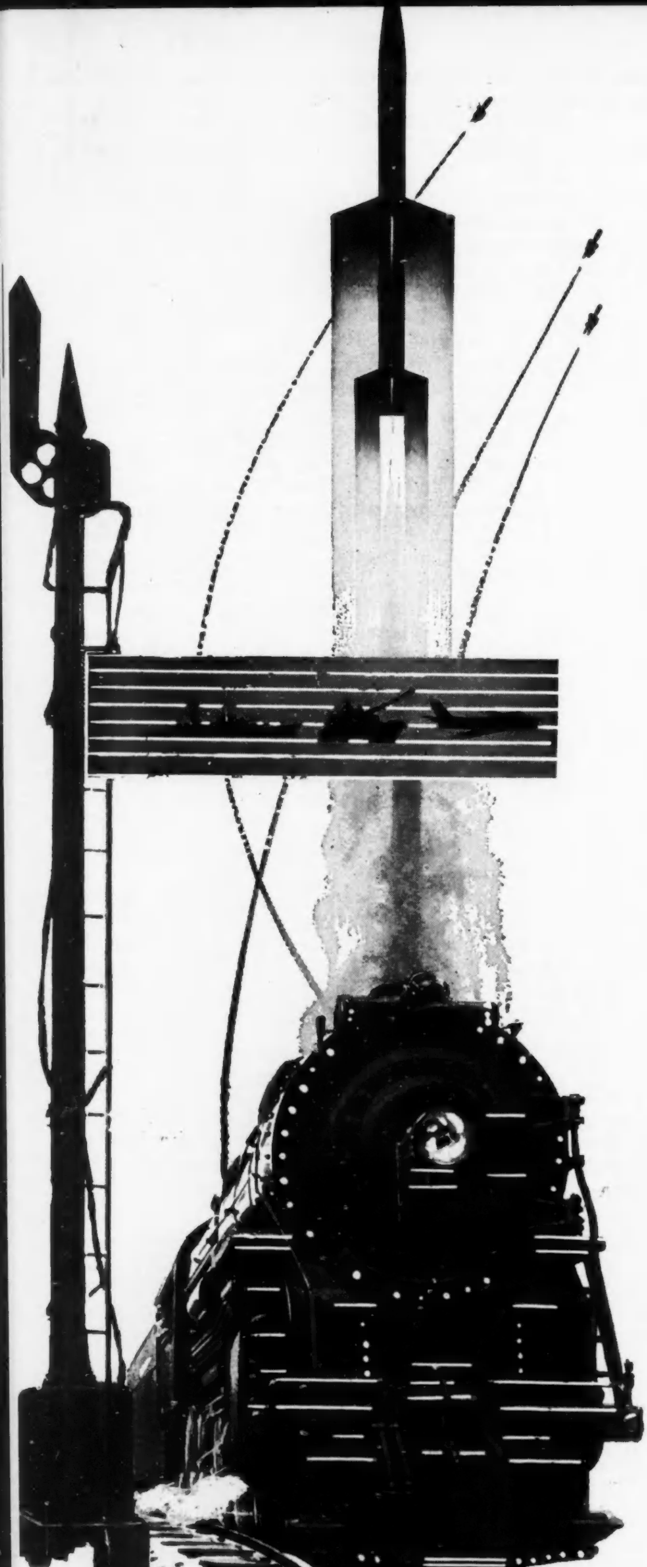
Selected rails will probably perform well in the 1959 stock market, but recent brisk recovery of these stocks may have discounted part of the anticipated improvement. For a complete story on the railroads, see "High Balling the Rails for Defense Considerations" in this issue.

RAIL EQUIPMENTS — 1958 was a difficult year for the rail equipment makers. With few exceptions earnings fell as the nation's railroads cut back their new equipment orders to a bare minimum. Fortunately, many of the companies in the industry are now fairly well diversified and were able to remain in the black despite the recession in their basic business.

For 1959, the outlook is generally promising. It is doubtful that the railroads will step up new car purchases greatly, but repair parts, maintenance equipment and automatic devices should be in good demand. Some idea of the repair problem faced by the rails can be seen from the fact that last July (the last month for which figures are available) there were 133,000 cars awaiting repair. This represented almost 8 percent of the nations rolling stock, the highest ratio since 1940.

In addition, the carrier's inventories of supplies and materials fell $100 million between July 1957 and July 1958 and the percentage of inventories to railway revenues is now close to its lowest point since 1931.

It seems apparent, therefore, that many rail equipment makers will enjoy a better 1959. However, the financial condition of many carriers will hold down the possibilities *(Please turn to page 370)*



"HIGH-BALL" THE RAILS FOR DEFENSE CONSIDERATION

- **Strategic transportation for our economy — for movement of troops and civilians under defense**
- **What will Congress do about it?**
- **Varying status of the individual rails — their earnings position and outlook**

By JAMES HATTON

THE shortage of adequate transportation in these United States was clearly brought home to us when the air pilots went on strike and disrupted the holiday homeward trek for thousands of people who had to scurry about to find alternative means of travel—with many giving up their plans entirely.

This climaxed a series of dislocations which have been disrupting passenger traffic these past two years as one road after another reduced or discontinued service, resulting in the worst kind of traffic snarls as the public resorted to automobiles and buses to carry them to destination. Already the interminable delays and inconvenience for the public have altered the economies of our cities, affected the revenues of merchants and seriously cut into the labor supply.

It makes your hair stand on end to think what this severe dislocation of transportation could mean in evacuating our cities and towns—and the movement of troops under war conditions. It would immobilize masses of people in dangerous areas and negate all civil defense activities almost entirely. The loss of life would be unthinkable.

There is little evidence that there has been any recognition of this truth by Congress, who only this past year granted but a modicum of relief. It is only reasonable to expect that the railroads must be enabled to stand on their own feet to play their essential part as a great artery of traffic serving the nation.

There has been too little recognition that the railroads are an important part of our daily life—of our national defense. If the rails are to continue to be a major source of efficient transportation they must be encouraged by the government and its regulating agency to stay healthy.

There are too few people who remember that the railroads broke all previous records during World War II when they were called upon to move military

Statistical Position of Leading Railroads

	Gross Revenues 1st 10 Months 1957 (Millions)	Gross Revenues 1st 10 Months 1958 (Millions)	Percentage Change %	Operating Ratio Full Year 1957	Operating Ratio 1st 10 Months 1958	Net Per Share* Full Year 1957	Net Per Share* 1st 10 Months 1958	Net Per Share* Estimated Full Year 1958	1958 Div. Per Share	Recent Price	Div. Yield	Ratings
Atchison, Top. & Santa Fe	$506.4	$485.9	— 4.0	77.6%	75.0%	$2.30	$1.74	$2.35	$1.45	27	5.3%	A2
Atlantic Coast Line	136.5	123.7	— 9.4	84.1	83.6	4.20	3.13	4.00	2.00	50	4.0	B2
Baltimore & Ohio	391.0	318.4	—18.5	80.9	80.0	8.53	5.04	5.50	1.50	42	3.5	C1
Chesapeake & Ohio	401.3[3]	324.5[3]	—19.1	69.4	(NA)	8.36	5.65	6.00	4.00	66	6.0	B2
Chic., Milw., St. P. & Pac.	213.7	204.3	— 4.4	82.0	81.7	2.51	2.14	2.75	1.50	24	6.2	C1
Chic. & Northwestern	185.0	180.4	— 2.4	85.4	82.2	d6.14	d .45	d1.90	—	27	—	C1
Chic., Rock Island & Pac.	175.6	173.3	— 1.2	78.4	77.6	3.32	2.41	3.25	1.60	30	5.3	B1
Dela. Lack. & West.	72.4	64.1	—11.4	85.5	89.6	.26	d2.01	d2.15	—	10	—	D3
Denver & Rio Grande W.	72.4	63.9	—11.7	63.8	65.6	6.38	3.94	5.00	2.50	57	4.3	B2
Erie	145.6	126.2	—13.3	80.5	84.0	1.21	d1.94	d1.75	—	11	—	D3
Great Northern Ry.	235.7	210.3	—10.8	77.1	75.9	4.38	3.60	4.25	3.00	49	6.1	B1
Gulf, Mobile & Ohio	71.2	66.5	— 6.6	79.1	79.4	2.28	1.38	1.75	1.00	24	4.1	C1
Illinois Central	242.8	218.3	—10.0	78.8	79.3	5.06	4.21	5.50	2.00	47	4.2	B1
Kansas City Southern Sys.	59.9	55.4	— 7.4	57.9	60.8	9.29	6.00[4]	8.75	4.00	78	5.1	B2
Lehigh Valley	57.3	48.3	—15.7	87.1	90.4	d .79	d2.30	d2.30	—	8	—	D3
Louisville & Nashville	205.0	187.2	— 8.6	83.2	83.2	7.63	4.14	6.00	5.00	78	6.4	B1
Missouri Pacific "A"	251.3	241.5	— 3.9	76.7	77.1	9.85	5.54	8.00	2.40	40	6.0	C1
New York Central	623.7	539.3	—13.5	84.6	85.8	1.30	d .58	—	—	26	—	C1
N. Y. Chicago & St. Louis	146.3	116.2	—20.5	71.4	73.9	3.58	1.89	2.50	2.00	31	6.4	B1
N. Y., N. H. & Hartford	137.1	123.1	—10.1	82.5	84.8	d4.47	d4.97	d5.50	—	9%	—	D3
Norfolk & Western	214.4	169.9	—20.7	68.2	67.4	7.75	5.58	7.00	4.00	88	4.0	A2
Northern Pacific	155.6	149.7	— 3.8	82.8	78.8	4.25	3.69	3.95	2.00[1]	49	4.0	B2
Pennsylvania	839.4	698.5	—16.8	85.0	85.5	1.45	d .22	.25	.25	17	1.4	C1
Reading	114.6	88.2	—26.4	80.0	84.4	5.36	d .08	.50	1.25[2]	22	—	C1
St. Louis-San Francisco	110.8	103.4	— 6.6	81.6	79.8	1.74	1.87	2.50	.25	19	1.3	C1
Seaboard Air Line	136.9	127.3	— 6.9	75.3	80.1	3.85	2.47	3.25	2.00	36	5.5	B2
Southern Pacific Sys.	556.9	540.8	— 2.9	80.2	79.3	6.02	4.70	6.50	3.00	61	4.9	B1
Southern Railway	221.6	209.7	— 5.3	71.4	73.5	4.78	3.16	4.25	2.80	54	5.1	B1
Union Pacific	432.5	416.3	— 3.7	74.0	74.0	3.34	2.59	3.25	1.60	36	4.4	A2
Virginia Railway	55.3	41.5	—24.9	46.6	51.0	4.93	2.65	3.00	2.00	37	5.3	A2
Western Pacific	46.5	43.1	— 7.2	75.0	75.4	7.54	7.28	7.50	3.00	67	4.4	B1

*—Before funds.
d—Deficit.
NA—Not available.

1—Plus stock.
2—No action taken 9/23.
3—1st 11 months.
4—1st 9 months.

Rating Key: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Lower earnings trend.

personnel and war materiel, and assume the burden of added freight resulting from reduced truck transportation, due to rubber and fuel rationing and the removal of the private automobile from the highways too.

The next emergency will come without warning, and while we boast of super highways they might present a severe problem at such a time. Our privately owned and maintained "steel highways" and the equipment on them must be readied for emergency by the companies. Thus, to keep them alive, our national planners should begin to think of the railroads and their importance as an integral part of our permanent defense program.

No matter when or where, how long or how short, there will always be need for railroad service. For freight and passengers in war or peace, no other form of transportation can haul people and material so efficiently or so cheaply, but American railroads are gradually dying from the burdens of outmoded National and State laws.

The 1958 Transportation Act

After lengthy testimony by railroad management and other interested parties, Congress, toward the close of the last session, enacted legislation it believed would be of aid to the ailing railroad industry. The new legislation included:

(1) A program for guaranteed loans under certain conditions.
(2) greater authority to the regulating agency to adjust interstate rates and to decide on the discontinuance of unprofitable operations.
(3) establishment of new rules for rate making so as to ease competitive handicaps.
(4) broader regulation to cover other exempt carriers.
(5) removal of restrictions on the hauling of certain agricultural commodities.

Removal of the World War II 3% tax on freight was also enacted at the session, although it was technically not a part of the new Act.

Certain features of the new legislation are currently being tested in the Courts while another provision of the Act is awaiting clarification before the I.C.C.

Items to be Considered by New Congress

A number of other important considerations were held over for the next session of Congress as a result of a resolution adopted by the Senate Committee on Interstate and Foreign Commerce. Salient features of the resolution are:

(1) need for modified regulations, geared to today's conditions.
(2) "should user charges" be levied on those carriers whose operations are Government assisted?
(3) the right to operate other forms of transportation such as busses, airlines, pipelines.
(4) the need for consolidation or mergers within the railroad industry.
(5) the type and extent of passenger services adequate for the public and national defense, and
(6) the need for a change in I.C.C. long and short haul rate making.

Few observers of railroad affairs will deny the importance of the new legislation. However, until the I.C.C. and the Courts rule on cases pending, the best that can be said at this juncture is that a start has been made but there is still a vast distance to go.

It is no secret that the railroads ceased to have a monopoly on transportation years ago. Outmoded regulations have restricted the railroads from fully competing with other subsidized forms of transportation. Among other things they have lost revenue that otherwise would have gone in part toward the purchase of rolling stock and other facilities which are sorely needed today. It is the hope of the industry that the new Congress will go further in exploring and acting on the issues that were left untreated at the last session.

Recession 1958

The 1958 recession had a greater impact on the rail industry than either of the two previous setbacks since World War II. Revenues declined sharply into the third quarter of the year while management lost no time in curtailing service and reducing expenses as best they could.

Railroad labor saw its ranks reduced to the lowest level in many years while it viewed with concern the elimination of the firemen from the Diesel locomotive by Canadian railroads. Management too reduced its salaries while its ranks were also pared.

Rail freight rates were raised selectively to offset automatic wage increases, with the usual loss in traffic to competitors. However, some roads held back in applying permissible increases in order to hold as much traffic as they could.

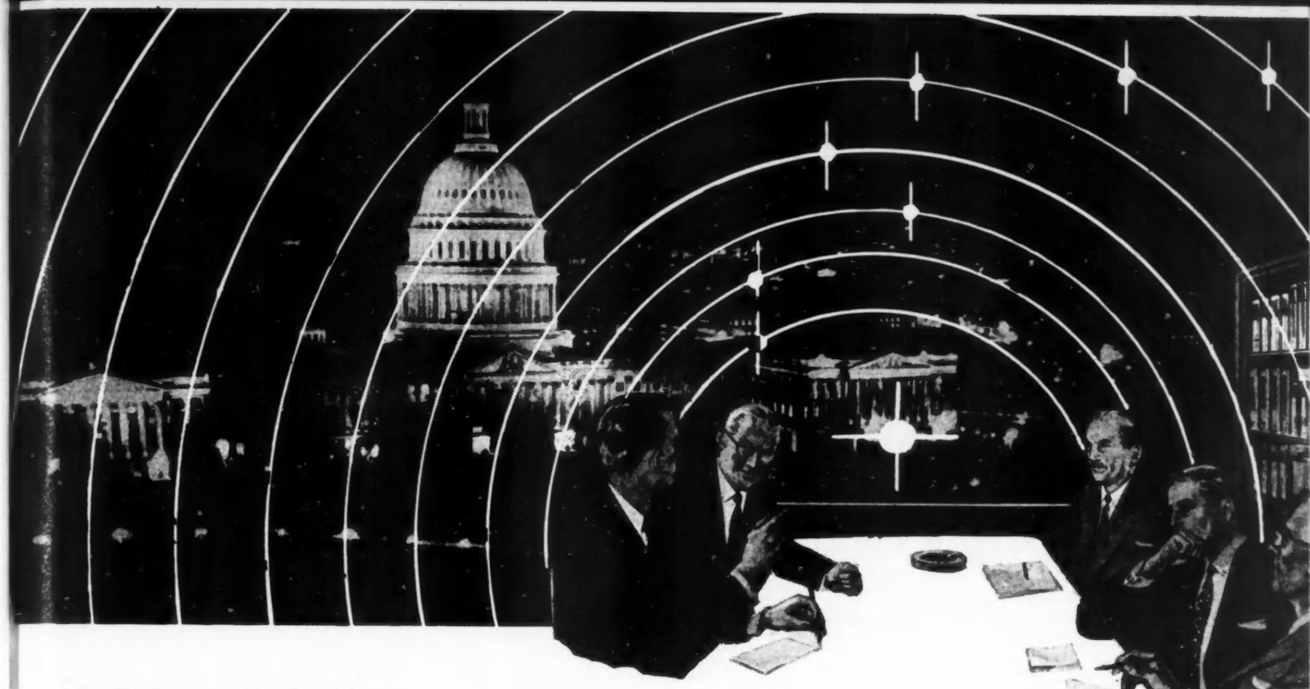
Declining earnings and reduced cash cut working capital position; resulted in lower dividends and, in some cases omissions of payments. Financial positions of the Eastern railroads reached quite a serious state. Big carriers like the New York Central and the Pennsylvania, and others too announced consolidation studies.

By the third quarter of the year the industry caught its second wind as it began to feel the effect of general business improvement that set in during the second quarter. The overall rate of revenues and earnings turned upward and as the year came to a close the level was above that of 1957.

There is no question but had the recession gone further than it did the industry would have reached a state not unlike the years prior to World War II when about one-third of the total mileage of the railroads was being operated by court appointed trustees. Fortunately the business recovery stimulated revenues and gave the rails a reprieve but much remains to be done if we are to put them on a sound footing for both economic and defense purposes.

Looking to 1959

If business is going to hold in 1959 or even get better as a number of reliable agencies predict, then the railroads should move more traffic. An expanded piggyback freight move- *(Please turn to page 382)*



The Companies involved in . . .

Those Costly—Defective and Futile

ANTITRUST LAWS

Due for a change in 1959

By JAMES J. BUTLER

- **System of enforcement that unnecessarily burdens business and industry**
- **Device of convenience — the consent decree**
- **Procedures to take government out of most cases — make it possible for injured competitors to redress grievances — without going broke in the process**
- **Anti-trust cases brought — those settled in last half of current year — companies — industries — and basis of suits — and instances of impractical and futile decisions.**
- **Preliminary new bill for reforms in procedure — and statutes — in search for more speedy, less expensive and equitable rules**

NO official report on prosecutions under the Federal antitrust laws tells the complete story of the impact of this government activity upon business. The basic reason is found in the fact that "prosecution" is used in such reports in its most literal sense. It does not include the score of other situations in which demand is made upon the business community to deliver up documents, spend time with Federal agents and otherwise devote physical and financial stamina to answering questions in preliminary proceedings, which sometimes arise out of spite, sometimes are grounded on misunderstanding of the law, and often result from the free play of competitive enterprise which reveals pratices bearing the color,—but not the substance of law violation.

The Department of Justice is not capriciously hiding facts. Its hands are tied by statutory protections thrown about business to insure that none needlessly suffers from publicity suggesting misdeeds later found not to exist. The picture the public gets, therefore, is not unlike that presented by an iceberg, only fractionally in sight.

The Antitrust Division announces the formal launching of a civil or criminal suit, the entry of judgment in a court, or the execution of a consent decree. (These things already are on record in their flow through judicial channels.) What is not spread on the record, is the broad activity embracing investigations, which are kept in confidence unless and until a respondent is hailed into court. Cases closed for want of proof wind up in cluttered files. These files represent millions of dollars and thousands of man-hours expended both by government and by business.

It has been publicly stated by authorities in the field of antitrust and monopoly law that consent decrees have been signed to get rid of costly and time-destroying annoyances; *it even has been suggested that there are more consent decrees than are justified and that the Government uses the lure of "an easy way out" to persuade business organiza-*

Antitrust actions terminated by "Consent Decrees" in current fiscal year — July through December

Commodity	Respondents	Where Filed	Mandate
Pickles	Greater New York Food Processors Assn.	New York City	Dissolve Assn.; end price fixing and picketing of firms not agreeing to abide by prices fixed by Assn.
Trailers	American Body & Trailer, Inc. Oklahoma Uti.ity Trailer Mfg. Co., Great Dane Trailers.	Oklahoma City	Cease allocating or dividing customers, territories or markets and end price fixing
Printing Equip.	American Type Founders, Inc.	Elizabeth, N.J.	Cease allocating world markets for printing presses and equipment
Insurance	Baton Rouge Insurance Exchange and its members.	Baton Rouge	Cease boycotting non-member insurance companies and agents; cease acting in concert on govt. bids.
Pickles	New York Pickle & Condiment Dealers Assn., with 40 dealers in New York City area	New York City	Cease agreement not to compete with member companies, not to fix prices, refuse to sell listed firms, end boycotts
Linen supplies	Consolidated Laundries, and 14 other firms doing business in New York; Linen Supp'y Institute of Greater New York, and Linen Service Council of New Jersey	New York City	Cease price fixing and allocation of customers and areas; stop harassing competitors; end acquisition of companies to stifle competition
Tobacco	Lexington (Ky.) Tobacco Board of Trade and 28 warehouse members	Lexington, Ky.	Cease observing uniform fees and commissions charged tobacco growers for warehousing
Windows	Painters, Decorators and Paperhangers of America (glazing contractors named as co-conspirators but not defendants.)	Chicago, Ill.	Cease forcing contractors to stop using windows not glazed on the job
Liquor	Maryland Institute of Wine and Spirit Distributors, I. William Schimmel, McCarthy-Hicks, Churchill, Ltd. Embros Wine Co., Maera Bonded Wine & Liquor, Reliable Liquors, Gillet-Wright, Inc.	Baltimore, Md.	Cease price agreements to end competition; end pressure on distillers not to sell liquor to monopoly (state-owned) outlets
Imported nails	Ataka New York, Inc.	San Francisco	Cancel arrangement in which Ataka and 11 other companies controlled import of Japanese wire nails.
Licenses	Radio Corporation of America	New York City	Compulsory license of radio patents; end of "package deal" requiring any licensee to accept license for all or none and pay full royalty, and fixing rental on end product price.
Grave Markers	Jas. H. Matthews Co.	Pittsburgh, Pa.	Cancel deals with cemeteries to bar installation of bronze markers not sold by respondent
Pharmaceuticals	Syntex Chemical Co., Ogden Corporation, American Steroids, Syntex, S. A.	New York City	Compulsory license of patents on barbasco root, used in cancer and arthritis cases.
Dance studios	Arthur Murray, Inc., Educational Credit Bureau of New York, Educational Credit Bureau of Kansas City, and Tuition Plan, Inc.	Kansas City	Cease threat to revoke Murray studio franchise if other finance agencies are permitted to handle student fees; Arthur and Kathryn Murray required to dispose of financing companies
Electronics	General Electric, Westinghouse, and N. V. Philips (Netherlands)	New York City	Cease operating through Canadian subsidiaries to restrain trade in radio and TV sets between U. S. and Canada

tions to accept mandates that might not have been imposed on them had they gone to court. But the trial of an antitrust suit is a long-delayed proceeding, costly in terms of professional services (lawyers, accountants, expert witnesses and the like), backbreaking in the expense of gathering defense testimony, and injurious to business by reason of the publicity attendant upon a trial. It has been said that the "correction" never catches up with the original news story, and this seems to be a case in point.

Rationale of Antitrust Action

A feeling approaching panic may seize an investor when he learns via the grapevine, or reads in a newspaper column, that a business in which he has an interest is "involved" in a Government antitrust matter. Concern is magnified when days pass with neither confirmation nor denial from Washington. If there was truth in the report in the first instance, the delay, which could be days or months, can be traced to standard operating procedure in the Department of Justice: there is "no comment" on any matter which has not reached the stage of formal decision to prosecute in criminal court, sue in civil court, or ask judicial approval of a consent decree. In the vast majority of instances the subjects under discussion and conference in Washington do not materialize in litigation. The worry, natural as it may be, was groundless. In fact there might have been more basis for concern if it had become public knowledge that ABC Corporation is under investigation or, as more frequently happens, that a business or industrial trade association and all its members face the possibility of suits or indictments under the Sherman Act or the Clayton Act. When traces of monopolistic action (usually agreements to fix prices or divide sales territory) are found in an industry which has a strong trade association, the Department of Justice is likely to demand books, records, reports, and answers to written interrogatories from the Association; names, addresses, place of operation, and data on sales of all members. After months, even years, of inquiry, it may be found that none, or only a few, have been skirting

Antitrust actions brought by Department of Justice in current fiscal year — July through December

Commodity	Respondents	Where Filed	Charge
Plumbing supplies	Crane Company, Industries Supply Company, San Diego Pipe & Foundry Co., Southern Equipment & Supply Co., Republic Supply Co.	San Diego, Cal.	Price fixing
Stitchers, staplers	Bostitch, Inc.	Providence, R.I.	Fixing resale prices, allocation of sales territory, barring handling of competitors products by co-conspirators (Consent decree, Dec. 2)
Animal feeds	National Alfalfa Dehydrating and Milling Co., Midland Industries, Denver, Col. and Saunders Mills	Denver, Col.	Acquisition of competitors to lessen competition
Frozen foods	Frozen Foods Distributors of Greater New York, Global Frozen Foods, Nassau Suffolk Frozen Foods, Reliable Food Distributors, Snow-Kist Frozen Foods, Flagstaff Frozen Foods, McRoberts Bros, Inc., and 5 individuals		Price fixing, requiring distributors to hike prices and boycotting packers who refuse to conform
Golf clubs	True Temper Corporation, Wilson Athletic Goods, A. G. Spalding, McGregor Sport Products, Hillerick & Bradsby Co.	Chicago, Ill.	Controlling prices, distribution denied non-conformers
Bicycles	Arnold, Schwinn & Co., Schwinn Cycle Distributors Assn., B.F. Goodrich	St. Louis, Mo.	Sales franchises made dependent upon observance of fixed prices; exclusive franchises (may not handle competitors bicycles)
Soaps	Lever Bros., Monsanto Chemical Co.	New York City	Elimination of competition between respondents by sale of "All" (a detergent) from Monsante to Lever
Automobiles	Ford Motor Co. and 17 franchised dealers in Washington, D. C. area; 14 franchised Chevrolet dealers, and Greater Washington Chevrolet Dealers Assn.; 11 franchised Oldsmobile dealers	Washington, D.C.	Conspiracy to raise, fix and stabilize retail sales price of autos and accessories, by adopting uniform lists above mfrs. suggested prices, refraining from price advertising
Paints	Martin-Senour (Chicago), John Lucas & Co. (Philadelphia), W. W. Lawrence & Co. (Pittsburgh), Lowe Brothers (Dayton) Acme Quality Paints (Detroit), Rogers Paint Products (Detroit)	Cleveland, O.	Withholding "Kem Products" from dealers who do not adopt fixed resale prices.
Dairy products	Beatrice Foods, Roberts Dairy, and Alamito Dairy	Omaha, Neb.	Eliminating competition by uniform bidding on contract to serve Air Force base
Newspapers	Greenville, Tex., Banner, Harte-Banks Newspapers, Inc., Herald-Banner Publishing Co., Harte, Hanks & Co., and 3 publishing executives	Dallas, Tex.	Unfair competition by price competition in which The Banner was operated at a loss as a means of driving the competing Herald out of business
Automobiles	Ford Dealers Advertising Assn., Oakland Zone Chevrolet Dealers Assn., Plymouth Dealers Assn. of Northern California	San Francisco	Price fixing to lessen competition.
Office furniture	Hunting Roberts Co., and its president, Edgar H. Hunting	San Francisco	Conspiring with distributors to fix sales prices and discounts, and to control bids to gov't. agencies

(Table continued on page 381)

the law. This is dragnet procedure and all the condemnation that is relevant to such performance may spill out. But it won't change matters. How much wiser it is, therefore, not to jump to conclusions, not to resolve doubts against absolution, not to make addition or multiplication of costs and griefs that aren't in the cards?

Antitrust proceedings constitute a hazard to doing business. No company can be sure it will complete a fiscal year without being called upon to square its position in the business world with the Department of Justice. But when it is considered that there are thousands of corporations functioning in interstate commerce, engaged in a battle for economic survival in a highly competitive arena, with only a relative handful ever called on the carpet and fewer still ever brought into court, it can be seen that the "peril" has been blown up far out of proportion to the real danger.

The Over Magnified Scare

Take the end of Fiscal Year 1957 for example: 62 civil actions and 35 criminal cases pending in court. In the first one-half of that Fiscal Year, 72 civil cases were docketed, and 30 criminal complaints. These figures may explain the truism that the Government seldom loses an antitrust case in the courts: it brings very few of them.

In the first six months of the current Fiscal Year, a period carrying through December, 18 antitrust actions were brought, and 16 pending cases went off the docket when respondent companies entered into consent decrees, stipulating discontinuance of actions which the Government regarded as violative of the Federal statutes. Only one case appears on both lists.

There was no geographic or industry concentration in complaints filed in the six-month period of 1958 in San Diego, Providence, R. I., Colorado, New York City, Chicago, St. Louis, the District of Columbia, Cleveland, Omaha, Dalls, San Francisco, Los Angeles, Toledo, Miami, Fla., and Grand Rapids, Mich. Federal courts approved consent decrees in New York City. Okla-

(Please turn to page 380)

Inside Washington

By "VERITAS"

TAX INCENTIVE underlies proposals to promote foreign economic policy presented to a Ways & Means Committee in a series of hearings which ended just before the holidays. Word came to Capitol Hill that the Administration is thinking along tax incentive lines and President Eisenhower may have the broad outline of a program in his State of the Union Message. The trend has been in that direction. The United States has signed several treaties to end taxation of incomes of United States industries in two countries. Proposed also is encouragement to re-investment of foreign-earned funds and 14% income tax differential on earnings outside the country.

WASHINGTON SEES:

A trend away from cooperative power production and distribution and back to the private company method is developing among those who know the two systems best because they have tried both. In such widespread states as Arizona and New Jersey, members of REA cooperatives were thinking alike.

In Arizona, after more than a decade of considering the switch, a big bloc of patron members of the Verde Electric Cooperative at Cottonwood voted to sell out to Arizona Public Service Co., which is privately owned. The utility paid $600,000 which approximates the outstanding mortgage of the Rural Electrification Administration facility. The sellers dropped their asking price by $97,000.

In New Jersey, Tri-County Rural Electric Cooperative at Freehold, has accepted the offer of privately-owned Jersey Central Power and Light Company. The National Rural Electric Cooperative Association made a fight against the deal but was smothered under assents to the deal personally spoken or expressed by proxy. The New Jersey Board of Public Utility Commissioners had ordered a $300,000 modernization program. This had the effect of chilling interest in retaining — and maintaining — the REA system. Co-ops must make a choice between doing both, or neither. The problem of modernization that has arisen, is likely to be duplicated elsewhere, with a similar solution forced upon patron-owners.

EXPERIENCE is touted as a valuable recommendation for public office, as it is in private enterprise. That being so, the U. S. Senate's new look based on 16 freshman members, 10 of whom have served in the House of Representatives, should be one to inspire confidence. All appropriations bills constitutionally originate in the House of Representatives. The 10 newcomers who have dealt with money bills at the point of first contact have had an experience other Senators lack. That may be one of the reasons why the Senate has been regarded as a court of appeal from House reductions. Mostly democrats, the freshmen can prove or disprove Ike's "spenders" indictment.

REVIEW of labor-management relations as reduced to writing by the parties during 1958 presents an amazing picture of how work contracts have grown in number. There are in the United States today an estimated 125,000 collective bargaining contracts, covering about 18 million workers. At least 80,000 of these contracts have a one-year term—95 per cent being renegotiated without strike or lock-out. Work stoppages for the year will number about 4,000, including impasses over wage agreements.

RULES will be announced soon by the Office of Civil and Defense Mobilization, setting out plans for its operation under new duties imposed by Congress on OCDM with respect to import duties. The Office no longer is restricted, in its opposition to tariff cuts, to items of defense material; if foreign competition might reduce investor interest or materially cut employment or the training of skilled workers, the agency (noted for a protectionist attitude) will urge "peril point" intervention. This is not a revolutionary step. OCDM has been consulted in the past by the Tariff Commission and the White House on all customs changes. But the President recently gave the Agency responsibilities stepped up from the advisory status.

As We Go To Press

►Defense contracts on a cost-plus basis may be on the way out. The new Congress will authorize its Government Operations Committee and Appropriations Committee in both houses to make simultaneous probes of aspects of this way of doing business, and report legislation. A subcommittee on Federal manpower made a surface examination of the subject just before the Christmas holidays and found evidence, said Chairman James Davis of Georgia, that the system piles up unnecessary costs. The cost-plus method became almost the sole basis of defense contracting in World War 2 days. Speed was imperative and the competitive angle was wiped out by the necessity of using all facilities of all industries capable of producing for the immediate need.

►Davis and his associates have made informal polls. Colleagues, including committee chairman, agree the study is warranted. Many seem to have made up their minds in advance of formal hearings, based on data which indicates that some firms in research and development have grown rich staffed with outstanding experts whom the Government agencies could not hire on account of salary limitations. But part of the cost, producing under a defense contract, is the payroll, and familiar names have been found next to salaries the agencies couldn't touch, even though the money would come from the U.S. Treasury in either event.

►That touches only the manpower aspect of Congressional interest. Rep. Davis expressed the view that the practice is false economy and costs the Government much more than is readily apparent. The listing of items which may be included as costs is an elastic one. It differs among the procurement agencies – and differs, again, among individual auditors within an agency. For example a firm nationally known for quality production and using extensive national advertising may undertake fulfillment of a contract which takes the firm temporarily out of civilian production. But management knows the business name and trade-marks must be kept alive in the minds of consumers. The Navy is tougher than the other services on permitting institutional advertising to be included in the cost accounting. Congressmen think the ground rules should be explicit. Especially since the damage is done in post-audit, after the money has been spent by contractors.

►After having been bogged down for several months by red tape, the Government is going forward again with the program for bartering surplus commodities for tin, zinc, nickel and 23 other strategic materials. Copper no longer is included; it was dropped because of the domestic price and supply situation. Latest development is inclusion of the 1957 crop of soybeans among the farm surpluses which may be swapped. The actual quantity that may move is uncertain. Bartering is supposed to be approved only if it is clear that it will not reduce commercial sales that otherwise might be made.

►A "new" John L. Lewis has emerged. The once bombastic and belligerent mine union boss negotiated his latest soft coal contract without threat of strike or blast at the "grasping operators." There was no day of mourning for those who died in the pits since the last contract, none of the trappings which had become a part of John L's "negotiations" over a period of many years. Some suggested Lewis is mellowing with age. But a more practical reason is acceptable: the country is not as dependent upon coal as it was a score of years ago. Not only have other fuels moved in, but nuclear energy is looming ever larger as a potent source of energy. Although development of this fuel will be gradual, Lewis is able to look ahead, see the handwriting on the wall. He realizes that if costs of mining coal go too high, other sources will be developed much more rapidly. Furthermore,

statistics on coal above ground put down the fears of work stoppage.

►Lewis, within or outside the AFL and the CIO, remains the most effective union leader in his field. He has never backed down as has Reuther for example; he has never invoked the Fifth Amendment on any question, pertinent or otherwise, as has the eminent constitutional authority James R. Hoffa; he has been politically active at times, indorsed candidates for public office with only so-so success, but he has never made the blunder George Meany committed in suggesting labor form a third party. John L. Lewis sought to rise above the law only once: his union paid the penalty for that adventure in a multi-million dollar contempt fine, imposed by the late Judge Goldsborough.

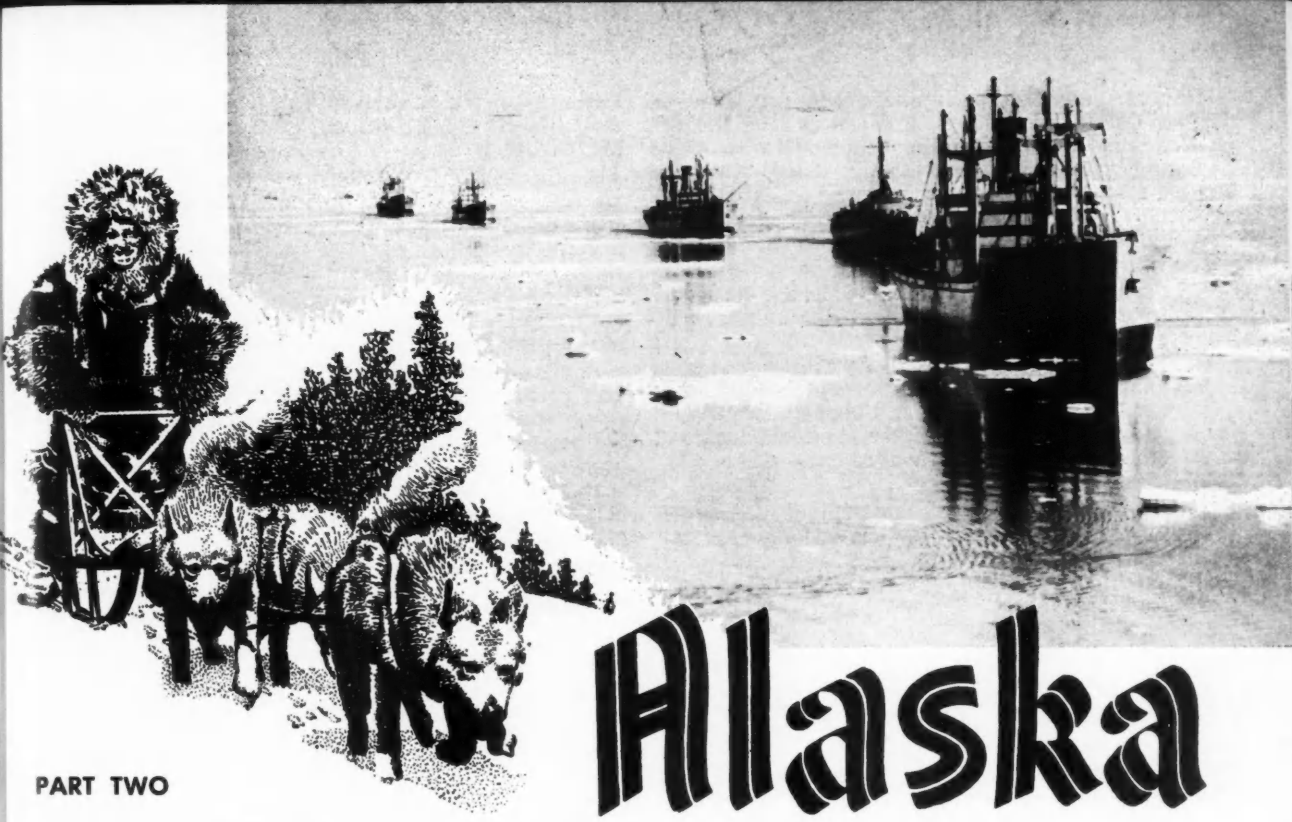
►These things are ingredients in his labor success story, but there's another element that is overriding: Since coal began losing its marketplace and dropped in essentiality, Lewis has adjusted himself to amicable treatment of the mine operators. Result is the current $24.25 a day for miners, well over the rate in the steel and auto industries. The mine boss may have overstepped, with the acquiescence of the Bituminous Coal Operators Association, signatory of the new contract. The companies have agreed not to handle any part of the 20 per cent of bituminous dug out of nonunion mines. There is the sound of antitrust law violation – restraint of trade – in that proposition. The questionable clause is almost certain to be tested in the Federal Courts.

►Whether or not defense procurement spending is cut, and stays cut, Congress is expected to appropriate funds for a second nuclear-powered aircraft carrier in the next several months. Admiral Arleigh Burke, Chief of Naval Operations, will present the argument that a dozen years from now many of the weapons systems now in use will be shelved as outmoded, but a nuclear-powered carrier will be of increasing use. Admiral Burke shares the view of operating heads of the other military services that there wil be an economy program, cutting deeply into military planning. At the Pentagon, this effort is appraised in terms of time lost rather than serious and permanent cutbacks. Put more simply, the prevailing view is that all the cars will be back on the track after Congress takes its bows. Deficiency appropriations bills never go out of style.

►The Small Business Investment Act, passed by the last Congress to create a network of privately-financed lending institutions to take over some of the business SBA is statutorily prevented from accepting, and to enlarge the opportunity for the "little fellow" to obtain operating funds, isn't getting off the ground with expected celerity. The Small Business Administration has issued the basic regulations. When the rules were released in tentative form, subject to amendment, Rep. Wright Patman, chairman of the House small business committee, noted a few objections to the rules, and several objections to the position taken toward SBIA by SBA Administrator Wendell Barnes. Patman made the flat statement that the regulations reflected Barnes' opposition to the whole idea; the implication being that the new program was being sabotaged by unworkable theories. Patman and Barnes still are engaged in a fast and furious battle of press releases.

►More deserving of attention than the acrimonious debate between the Congressman and the Administrator, is the view taken by Edward N. Gadsby, Securities and Exchange Commission chairman. Because the financing of SBIA units will involve sales of private securities, SEC comes into the act. Having examined the law and the regulations and noted the lack of enthusiastic response from the investing public, Gadsby appraised the situation and ventured a forecast which bodes ill for the private-investment complexion of the whole idea.

►Chairman Gadsby considers the plan is an experiment and one which might fail for one reason or another. If it does, he predicts, Congress will legislate in a manner that will bypass private capital and delegate all to government bureaus. This would be unfortunate, he recognized: it would give Government equity in many lines of business where such participation never was intended. In view of that prospect, Gadsby urges study of the extent to which existing avenues of financing are being utilized.



PART TWO

Alaska —Its Strategic Role In Our Defense

by John E. Metcalf

— Concentrates on the unique character of Alaska's strategic position geographically — what it can mean to the security of the United States — and the peace of the world. How its great storehouse of natural resources can reestablish our self-sufficiency in essential materials — the lack of which has obliged us to depend on foreign sources.

THE ever shrinking distances of this jet and missile age has awakened America to the importance of Alaska, standing as our northernmost sentry against surprise attack on the U. S. heartland, — as the Great Circle route over the Arctic ice-cap puts much of this continent within striking range of Soviet power. There is no region of greater strategic value to America today. It is our front line of defense, with only 12 miles of the Bering Strait separating us from Russia.

A few men of vision had the foresight to grasp the uniqueness of Alaska's position decades ago. The much ridiculed Seward, no doubt, when he bought it from Tsar Alexander II for $7 million in 1867. And certainly Homer Lea, that amazing young patriot who at the turn of the century foresaw a reawakened Russia embarking on a new cycle of expansion. Homer Lea was convinced of the essential nature of Alaska to the defense of North America.

In his powerfully written book, *The Valor of Ignorance*, the message that he preached to America was Vigilance — the Eternal Price of Liberty.

Homer Lea's short life was ended before the airplane had made its indelible imprint on the twentieth century. So that only with the coming of airpower, did the strategic significance of Alaska become apparent. One of the pioneers in Arctic flight was Carl Eielson, an Alaskan bush pilot. With Sir George Wilkins, noted explorer of the northland, Eielson made the first trans-polar airplane flight in 1928 from Alaska to Norway. This virtually halved the distance from the new world to the old. The present Eielson Air Force Base, Alaskan SAC headquarters near Fairbanks, was named for him.

Another who early realized the role of aviation in Alaska's future was General "Hap" Arnold, wartime Air Force chief. In 1934 he led an aerial mapmaking survey of the territory. The following year he obtained approval for a military air field and cold weather test station at Fairbanks, which later became Ladd Air Force Base. Ladd is now headquarters of the 11th Air Division equipped with the latest supersonic fighter-interceptors.

The Lesson of World War II

Despite the various warnings that trouble was brewing westward across the Pacific, the Japanese attack on Pearl Harbor found this country unprepared. As a great fleet sank to the harbor bottom. its mooring lines intact, America learned to its anguish that eternal vigilance is the price of liberty.

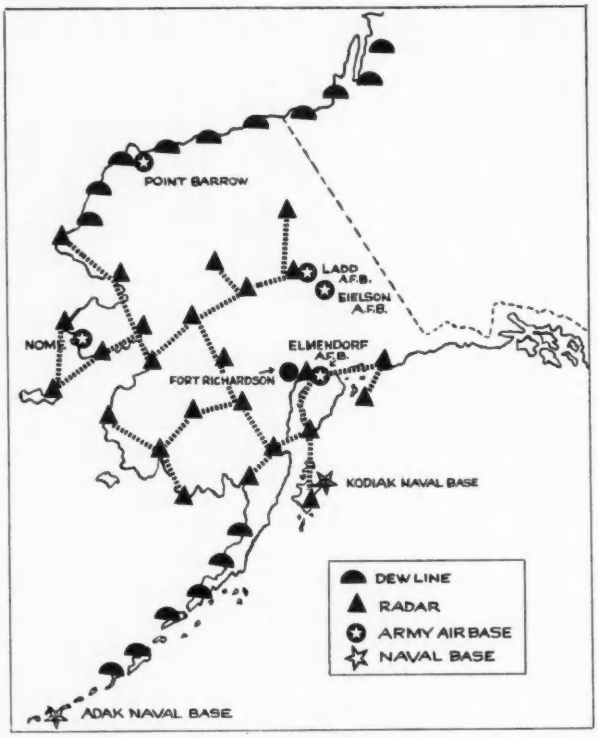
Invasion of the Philippines followed. Just as Homer Lea had predicted 35 years earlier, the Japanese attack was a pincer movement with landings at Lingayen Gulf on the west and Polillo Bight on the east. As he correctly foresaw, the harbor fortifications in Manila Bay were outflanked, our army surrounded, and Manila itself was captured in scarcely more than three weeks.

The forgotten words of Homer Lea — a poor, crippled American boy who died an unsung hero — returned to haunt the living:

"This has ever been the fate of nations as they have laid themselves down to sleep throughout the ages, in all their glory and hope and vanity, only to awaken at a predeterminated hour to find themselves upon a savage dawn, stripped and desolate."

The strategic value of Alaska was quite apparent to the Japanese who lost no time in launching the Aleutian campaign. Their landings at Kiska and Attu Islands were to have been the stepping stones to invasion of our mainland. But by then Alaskan defenses were receiving urgent attention. Building of the Alcan Highway through Canada had top priority. With Japanese submarines prowling the Gulf of Alaska, it was a military necessity to have an overland route to the territory — hitherto reached only by sea or air.

During 1942 some 15,000 Army engineers and civilians worked feverishly to cut a wide swath through virgin wilderness from Dawson Creek in British Columbia to Fairbanks in Alaska. In eight short months a preliminary gravel road 1600 miles long was laid down at a cost of $160 million. A companion project was the 130 million Canol military oil pipeline.



Map of our Alaskan Defenses.

Meanwhile the buildup of American airpower and bases in Alaska was helping to turn the tide of war. By mid-1943 the Japanese had been routed from the Aleutians, and the threat to the North American continent was ended. The war itself, however, was far from over, and America paid a bloody price for its lack of preparedness.

Over the Ice to Siberia

Although Japan lies 3,000 miles away from the Alaskan mainland, we have seen how in World War II they nearly wrested it from us. Soviet Siberia is only 54 miles across the shallow Bering Straits. And the Russians are known to have airbases and missile launching sites there. Further down the Siberian coast at Petropavlosk, an ice free port, there is also a huge submarine base.

In the winter it is only a two mile walk over the ice from Alaska's Little Diomede Island to Siberia's Big Diomede in the Bering Straits. The two continents are actually frozen together for about half the year. In prewar days the Eskimos used to travel back and forth regularly in search of walrus. Now, however, the Russians have lowered the iron curtain on the Eskimos too.

Soviet attack on the United States — if it should ever come — would logically be from Siberian bases or over the polar ice cap. In such case Alaska would be the front line of our defense. It plays a vital role both as a guardian of our continent and potential springboard for retaliatory strikes. Several billion dollars have been spent on airbases there and a vast network of electronic detection and communication devices to give early warning of any communist attack. With the precious time thus bought. aircraft or missile interceptor stations would go into action, SAC forces would be launched, and the continental U. S. alerted.

The best insurance against such an event ever happening is preparedness. The knowledge that we are ever ready, ever watchful, is the greatest deterrent to attack. On the other hand, the global expansion of our political commitments and economic interests, if combined with a poor state of military preparedness, would present a virtual invitation to disaster. The lesson of history is clear!

The Invisible Fence

What then are we doing to insure ourselves against surprise attack over the top of the world? In 1952 work began on a joint U. S.-Canadian project — construction of a 3,000 mile string of advance warning radar stations across the northernmost rim of our continent. This invisible electronic fence stretches along the barren Arctic waste from the northwestern tip of Alaska across Canada to Baffin Bay in the east. Called the Distant Early Warning (DEW) Line, it took some five years and $500 million to build. It is considered one of the greatest engineering achievements of all time.

Western Electric Company (A. T. & T. subsidiary) was the prime contractor for the technical work. The U. S. Navy had the supply job which required delivering vast quantities of material along the inhospitable Arctic shore during the few ice-free

weeks each summer. Except for occasional air re-supply, these lonely outposts are frozen in for the balance of each year.

The scanning radars of these DEW stations never sleep. So sensitive are they that even a migrating flock of geese does not escape notice. In repeated tests run against the line by SAC aircraft, none have ever been able to elude detection. Any unidentified blips on the radar screen automatically mean a scramble call to the nearest fighter-interceptor base, and the fast-climbing jets take off to make quick identification.

The DEW line, 1,200 to 1,500 miles north of the continental United States, is actually the forward tier of a complex defense in depth. It is backstopped by both the mid-Canada line of radar stations and the Pine Tree system for aircraft control and warning along the Canadian-U. S. border. On the eastern flank it is supplemented by radar picket ships in the North Atlantic and a never-ceasing patrol by specially equipped radar planes.

Alaska's Strategic Position Is Depicted Above.

In Alaska itself a $140 million network of Aircraft Control and Warning (AC & W) stations crisscrosses the entire Bering Coast region. On the western flank, during the past two years, a $50 million extension of the DEW line has been strung 650 miles down the Aleutian Chain. This too is augmented by radar picket planes on mid-ocean patrol in the Pacific.

White Alice to the Rescue

The ever increasing number of defense installations in Alaska creates a fantastic problem of military communication. The DEW line outposts and the AC&W stations all require instantaneous links to fighter-interceptor bases and Alaskan Air Command headquarters at Elmendorf Field near Anchorage. The Strategic Air Command (SAC) units at Eielson need dependable circuits to North American Air Defense headquarters at Colorado Springs and other SAC bases throughout the world. There is Army headquarters at Fort Richardson, naval bases at Kodiak and Adak, and scattered weather stations. There is a $250 million ballistic missile detection center now building near Fairbanks (by RCA), and various missile launching cites are planned.

Because Alaska's savage winter storms choke up the atmosphere with static, it was necessary to develop a special means of communication. The solution was an entirely new type of radio called "Tropo scatter" or over-the-horizon transmission. Unlike normal broadcasting, this is not dependent on line-of-sight emission. Through use of complex equipment, high frequency radio signals are actually bounced off the sky and received up to 200 miles away by scoop-shaped 60-foot high antennae resembling outdoor movie screens.

Given the imaginative code name "White Alice," this new communications network was designed and built for the Air Force by Western Electric Company. Over a period of three years, 33 separate relay stations were put up (see map) at a cost of $140 million. The system was designed with sufficient capacity to serve not only military requirements, but also government and civilian needs in Alaska.

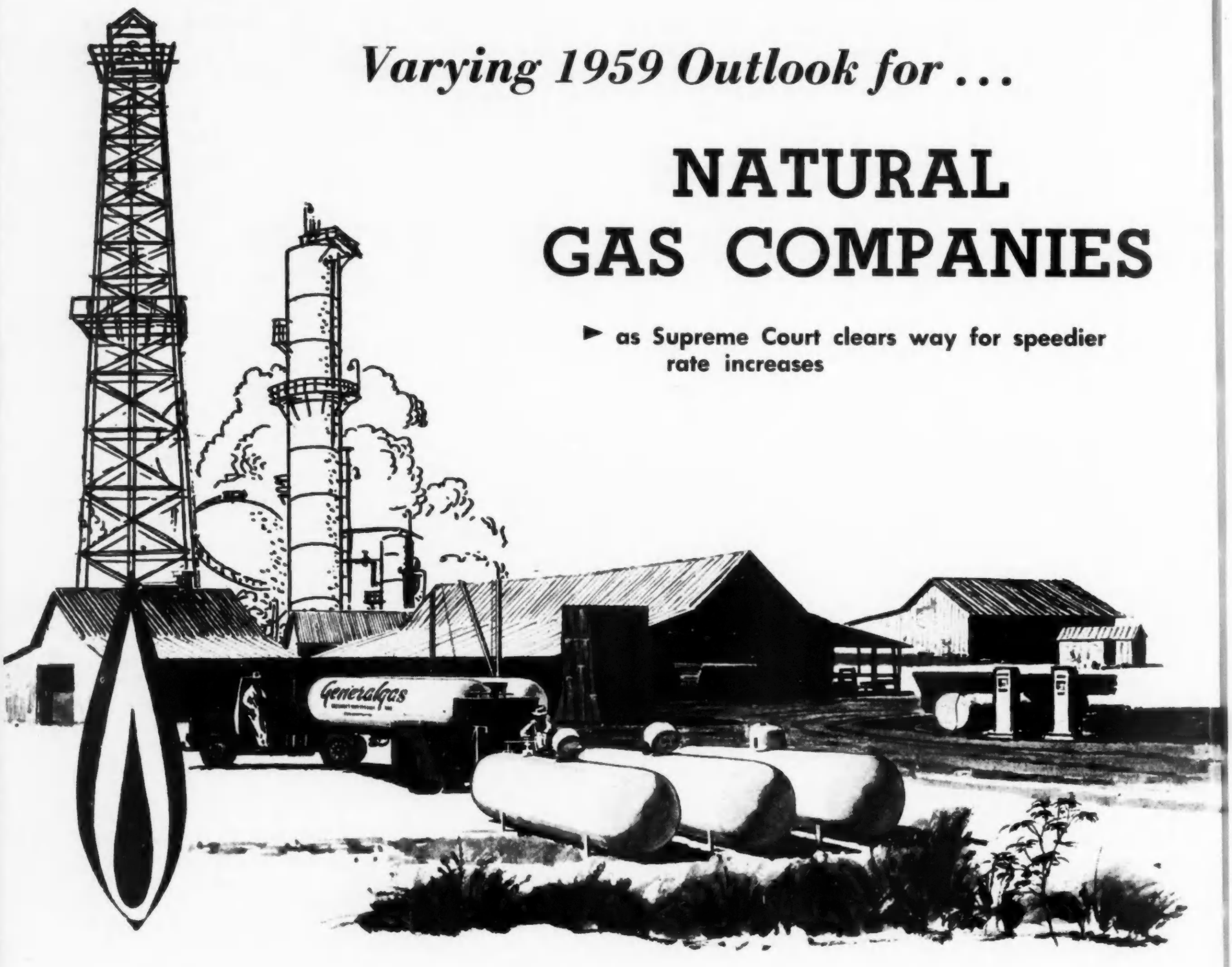
Strategic Resources for the Future

Besides its vital role in America's defense, Alaska has bountiful resources with great strategic significance. As pointed out in the previous portion of this article (December 20, 1958), although only 2% of Alaska has been surveyed, 31 of the 33 minerals essential to the United States have been found there, plus 17 others. Its energy supplies include coal, oil and gas, waterpower, and uranium.

In past years there was little incentive to develop Alaska's mineral wealth. Production costs in Alaska were high, and supplies elsewhere were ample. But here at home many of our oldest and best mineral deposits are getting closer to exhaustion. In some cases costs are mounting rapidly, as for example petroleum, iron ore, and copper.

Alternative supplies exist in foreign countries, but often there are political problems involved. Peculiar risks abroad add to costs and create uncertainties. American enterprise capital is not always welcome. And in time of war or other emergency supplies overseas are not always available to us. On the other hand, Alaska is part of the United States. Opening up of the area, and technological advance, are tending to lower development costs there.

Thus Alaska, with its treasure house of minerals and other resources, holds great promise for America's future. Destiny has given us this land, now our 49th state. We can be grateful for the wealth that is there and for the vision of those who worked and sacrified to keep it intact. In years to come Alaska will contibute a growing share to this country's economic strength just as it is now playing a leading role in our military security. END



Varying 1959 Outlook for . . .

NATURAL GAS COMPANIES

► **as Supreme Court clears way for speedier rate increases**

By KENNETH HOLLISTER

THE reversal last month of the Circuit Court of Appeals decision in the Memphis case by a 5 to 3 decision of the United States Supreme Court supported the long established procedure of the Federal Power Commission allowing proposed higher rates of companies under its jurisdiction to go into effect, subject to refund, pending completion of an investigation of the legality of the increase. For the most part the decision, written by Justice Harlan, is legalistic dealing with the narrow concept of contract rights of the parties. Nonetheless, the impact on the industry, had the decision gone the other way, would have been tremendous. Had the decision been upheld rate increases could have been obtained only by first securing customer approval and then filing the rates with the Commission or under the lengthy procedure prescribed under Section 5 of the Gas Act. The latter, however, makes no provision for collecting the higher rates until the legal process is completed.

At Stake

At issue in the Memphis case was the right of a natural gas company seeking to increase rates to file an application under Section 4 of the Gas Act after giving prescribed notice. When the Commission had not determined whether the new rates were "just and reasonable" at the end of 30 days the increase was suspended for periods up to five months and then went into effect under a bond that required refund (with interest) of any portion not ultimate-

ly allowed. At the time the Memphis case was decided by the Circuit Court of Appeals in November 1957 over $200 million of revenues were being collected by natural gas companies subject to the ruling. With this amount in jeopardy the industry was in turmoil and expansion plans were sharply reduced.

As it is there are a number of favorable implications in the decision: (1) Increased rates now being collected under bond will be retained pending a ruling and decision by the FPC; (2) Pipeline companies will not have to negotiate rates with reluctant customers prior to seeking necessary rate relief from the commission; and (3) Delayed expansion resulting from uncertainty about the first two items should go forward quickly.

The Decisions were Realistic

One statement of the Court in the decision seems worthy of comment because of its possible impact on the future of regulation of the industry. In the one paragraph of *dicta* in the decision the Court said, "It seems plain that Congress, in . . . drafting the [Natural Gas Act], was not only expressing its conviction that the public interest requires the protection of consumers from excessive prices for natural gas, but was also manifesting its concern for the legitimate interests of natural gas companies in whose financial stability the gas consuming public has a vital stake.

Business reality demands that natural gas companies should not be precluded by law from increasing the prices of their product whenever that is . . . necessary . . . to keep the intake and outgo of revenues in proper balance; otherwise the vast sums necessary for the maintenance and expansion of their systems through equity and debt financing would be most difficult." (In the dissenting opinion Justices Douglas, Warren and Black state the purpose of the Act is to protect consumer interests.) While the majority statement echoes the language of other landmark decisions, including the Hope Case (Federal Power Commission v. Hope Natural Gas Co. 1944.), the firmness of the wording could be quite important at a time when municipalities and other local political bodies are taking an active interest in natural gas prices. In this connection it may be noticed that practically every restrictive court decision in recent years relating to natural gas companies started with a complaint by a municipal or state government.

Stock Price Action

The market prices for natural gas common stocks began to rise shortly after oral argument on the case before the Supreme Court last October, indicating the favorable decision was not unexpected. On the day of the decision, however, a number of issues recorded further gains of 10% to 15%, or somewhat more than might have been anticipated on the basis of a ruling primarily relating to a procedural matter. The table on page 350 contains examples of price action of a number of representative pipeline companies.

Statistical Summary of Natural Gas Companies

	Earnings Per Share: Yearly 1956	Earnings Per Share: Yearly 1957	Earnings Per Share: 1st 9 Months 1957	Earnings Per Share: 1st 9 Months 1958	Dividend 1957	Per Share 1958*	Price 12/5/58†	Recent Price	Div. Yield **	Price Earnings Ratio††	Price Range 1957-1958
Pipe Lines (Some Production)											
Mississippi River Fuel	$2.33	$2.00	$1.58	$1.56	$1.60	$1.60	36	38	4.2%	19.0	38⅝-26½
Southern Natural Gas	2.41	2.35	1.83	1.85	2.00	2.00	41	43	4.6	18.2	49¼-29½
Tennessee Gas Transmission	1.57	1.75	1.51[3]	1.79[3]	1.46	1.40[4]	32	35	4.0	17.5	36⅞-20⅜
Texas Eastern Transmission	2.05	2.52	1.78	1.86	1.40	1.40	32	35	4.0	14.8	36 -20⅝
Texas Gas Transmission	2.17	2.02	1.64	1.57	1.00[4]	1.00[4]	29	32	3.1	16.0	32½-16¼
Transcontinental Gas P.L.	1.20	1.36	1.13	1.10	1.00[4]	1.00	24	26	3.8	18.5	31⅜-15¾
Integrated Companies											
American Natural Gas	$4.34	$3.91	$3.70	$4.21	$2.60	$2.60	63	65	4.0	14.7	69½-44
Arkansas-Louisiana Gas	1.56	1.85	(NA)	(NA)	1.20	1.20	42	46	2.6	17.6	50 -20
Columbia Gas System	1.41	1.31	1.21[2]	1.53[2]	1.00	1.00	20	21	4.7	14.0	21 -14½
Consolidated Natural Gas	3.33	3.39	2.83	2.58	1.90	2.10	47	49	4.2	14.4	49½-36⅝
El Paso Natural Gas	2.11	2.39	1.21	1.11	1.30	1.30	32	36	3.6	18.9	44⅜-24
Lone Star Gas	2.19	2.32	1.64	1.61	1.80	1.80	43	44	4.0	18.7	47¼-29¾
National Fuel Gas	1.64	1.39	1.23	1.27	1.10	1.10	23	24	4.5	16.0	24 -16⅜
Northern Natural Gas	1.78	1.87	1.87[2]	1.68[2]	1.33	1.40	29	31	4.5	18.2	31⅝-22½
Oklahoma Natural Gas	[5] .96[1]	[5]1.08[1]	[5] .99[3]	[5]1.27[3]	1.18[5]	1.18[5]	27[5]	28[5]	4.2	16.4	29¼-17
Panhandle Eastern Pipe Line	2.75	2.74	1.84	1.83	1.80	1.80	56	58	3.1	21.0	62¼-36
Peoples Gas Lt. & Coke	2.90	3.01	2.57	2.72	2.00	2.00	50	51	3.9	17.5	51¾-35⅜
United Gas Corp.	2.28	2.51	1.87	1.78	1.50	1.50	37	38	3.9	15.2	40½-25⅛

NA—Not available.
*—Based on latest annual dividend Rate.
**—Based on recent price.
†—Price, prior to Supreme Court Reversal of the Memphis Decision.
††—Based on estimated 1958 earnings.

1—Years ended Aug. 31, 1957 and 1958.
2—12 months ended Sept. 30.
3—12 months ended Oct. 31.
4—Plus stock.
5—Based on 4 for 3 stock split.

	Range 1955-58	Fri. 12/5	Tues. 12/9	Pts. Rise	Latest Earns.*
Colorado Interstate	85-23	48b	59b	11	$1.99
Columbia Gas	21-15	21	21	–	1.53
Consol. Nat. Gas	49-32	48	48	–	3.17
El Paso Nat. Gas	44-27	33	38	5	1.65
Northern Nat. Gas	32-20	29	31	2	1.68
Panhandle E.P.L	62-35	56	60	4	2.69
Peoples Gas	52-37	50	50	–	3.08
Southern Natural	49-30	41	44	3	1.90
Tennessee Gas Trans	37-19	32	36	4	1.86
Texas East. Trans.	35-20	32b	35b	3	2.59
Texas Gas Trans.	31-16	29b	31b	2	1.98
Transcontinental	27-12	23b	24b	1	1.46
United Gas	42-25	37	39	2	2.41

* Earnings for latest 12 months.

Companies which stood to be most severely affected by an adverse ruling, such as Colorado Interstate Gas, El Paso Natural Gas, Panhandle Eastern Pipe Line, Tennessee Gas Transmission and United Gas, sustained the greatest price advances. As each of these companies has been reporting earnings on the assumption of a favorable ruling none will report increases as a result and some of the stocks may temporarily at least be selling at relatively full multiples of their foreseeable earnings. (See company analyses below.)

Investment Aspects in Outlook

For the investor the immediate benefit of the Memphis decision is the mitigation of the threat to earnings if full refunds had to be made. Now the FPC can again move forward with resolution of other problems that have been held in abeyance pending settlement of Memphis. Among the most important issues are determination of rates of return, allowance of commodity value for pipeline owned gas, designing a method of setting independent producer rates and ruling on accounting procedures, for rate making purposes, for intangible drilling costs, statutory depletion and rapid depreciation. Each of these factors carries risks and rewards for the investor and all except rate of return is likely to be finally resolved in court after lengthy litigation.

Despite these hazards the gas industry is likely to continue to record substantial growth for a number of years to come. In addition to projects valued at $200 million delayed during the past year, *almost $2 billion is scheduled for new construction in 1959.* The demand for natural gas further indicates there will be a need for sizable expansion in subsequent years. At the end of 1957 natural gas provided 27% of the nation's total energy requirements and a report of the American Gas Association claims this will rise to 33% by 1975. Certainly as gas short areas are supplied and gas air conditioning becomes more important this estimate is quite likely to be realized. As Canadian legal and regulatory problems are unravelled, it is anticipated this supply will also become available to serve United States markets through a number of interconnections. Over a period of years exports to the West Coast and to the Upper Mississippi Valley could provide a major increment of the gas used.

Prospects for regulatory recognition of the need for increased earnings now seem more favorable than at any time in the recent past. An accumulation of evidence proving the insufficiency of the 6% standard has provided a basis for consideration of returns of at least 6¼% to 6½%. While there may be a question whether even such an increase is adequate, it should permit an earnings level that would support the proposed expansion plans of the industry. The ramifications of producer regulation are myriad, but generally beyond the scope of this article. Sufficient to say that the method of determining producer prices will have a major long term impact on the expansion of the industry. Below are brief reviews of listed natural gas companies including an evaluation of their earnings potentials at this juncture:

American Natural Gas. Subsidiaries of this holding company serve the densely populated and highly industrial area of southern Michigan, including the City of Detroit, and also the City of Milwaukee and its environs. Because of litigation relating to a proposed competing pipeline the company has been unable to obtain authorization to serve new market areas. Recently the FPC dismissed all of these competing applications and requested the interested companies to indicate new proposals for service to these areas. In view of the substantial demand it is expected the Commission will act as quickly as possible. If the construction proposals of the system are approved capital expenditures in 1958 are estimated to be in excess of $60 million. As a part of the financing program the company has announced its intention to sell common stock on a 1 for 10 basis in the first quarter of 1959. Earnings for this year are expected to be about $4.25. A recent FPC order authorizing Panhandle Eastern Pipe Line to abandon sales to a system subsidiary could, if upheld by the courts, have an adverse effect on 1959 earnings.

Arkansas Louisiana Gas Company. This unique state regulated utility has one of the best growth records in the industry since the new management assumed control about five years ago. At present it is expanding its operations in non-regulated fields and derives slightly over half of its earnings from these sources. For the twelve months ended September, 1958 earnings were $2.36 per share of which non-utility operations provided $1.36. (Included in the latter category, however, are direct gas sales made to industrial customers under fixed price contracts). Since acquiring the air conditioning facilities of Servel the company has consistently increased output and is now producing at a rate in excess of seven thousand units per year. Prospects for a rapid expansion of this business seem quite favorable. Earlier this month the company completed a 1.4 million barrel cement plant, the output of which is sold a year in advance. For the current year earnings are expected to be in the neighborhood of $2.60 and preliminary estimates for 1959, based on an expansion of the Servel operation and including the cement plant, at about $3 to $3.25. A long awaited dividend increase would seem justified by realization of these earnings.

Columbia Gas System. The combination of the proposed acquisition of Gulf Interstate Gas Company, a corporate realignment and the construction of a hydrocarbon extraction *(Please turn to page 374)*

Three Investment Selections
by a trio of authorities in the...
Steel–Paper and Building Industries

► All companies have top-level and progressive management — diversification — with natural resources holdings at home and abroad. These holdings were covered in our December 6, 1958 issue, in the story "Companies with Huge Assets in Natural Resources around the World" EDITOR

THE five most important ingredients to ensure the success of any long range commitment is 1) the selection of an industry which fulfills a basic peacetime need 2) the selection of a company whose products are unlikely to be supplanted through technological improvement or changes in styles, customs or mode of living 3) a company with good research facilities for product improvement and development of new products 4) a company with a stake in natural resources to offer some protection against the seemingly inevitable contraction of the dollar 5) a company with outstanding management to capitalize on the company's promise. The following three companies are ones which seem to fill all of the above qualifications.

Crown Zellerbach

Crown Zellerbach under the former guidance of J. D. Zellerbach, now the United States ambassador to Italy, maintained its position as the nation's second largest paper manufacturer with annual sales of around $460 million. Company's operation is well rounded involving all facets of the paper business. It produces groundwood, sulphite and kraft pulps, the bulk of which it utilizes itself in the manufacture of its own paper products which breaks down as follows: 25% newsprint, 9% other printing papers, 32% wrapping papers, 10% tissue and sanitary papers and 25% sanitary board. Of the paper produced, some is sold in finished form for consumer use, some is sold to other manufacturers of paper products, and some is made into various paper products such as facial and toilet tissues, towels, paper bags, waxed paper, gummed labels etc. Facial tissues are sold under the brand name of Chiffon and household towels under the name of Zee. Company's Western-Waxide division manufactures a highly diversified line of flexible packaging materials such as polyethylene, foil, and paper

laminates, sold to various industries such as the meat, dairy, petroleum and pharmaceutical industries. Crown Zellerbach also participates in the container field through its Gaylord Division, acquired in 1955. This division rounds out company's paper products line by making corrugated and fiber boxes, packing, and shipping material including paperboard cartons, kraft bags, wrapping paper and various specialties. Crown Zellerbach also produces lumber, plywood and shingles through its Canadian subsidiaries.

Crown Zellerbach has spent substantial sums adding to new plant and facilities which program reached a maximum of $70.3 million in 1956. Last year's capital expenditures were $55 million, and this year it is probable that they will be less than $30 million. Since the industry as a whole is operating at about 85% of capacity, it is improbable that there will be need for additional plant over the next few years. The entire capital expansion program, which has added about 20% to capacity, has been financed without resort to outside financing. Depreciation and depletion items are high. In 1958 cash flow was around 150% of net profits.

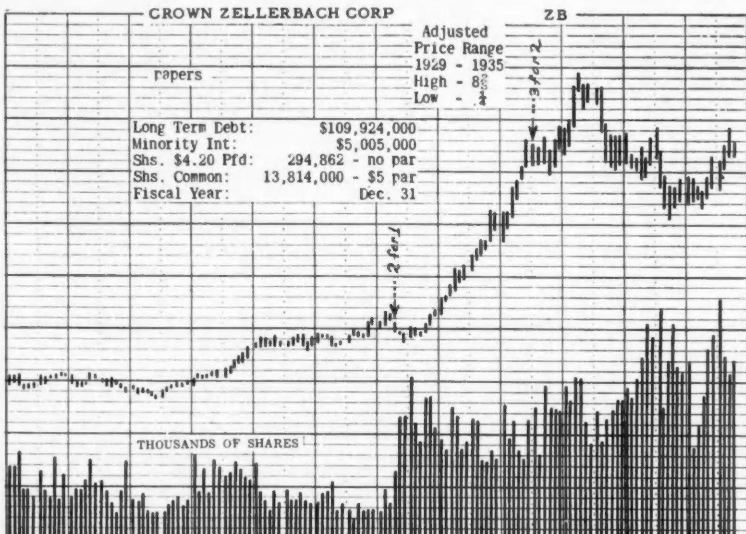
Paper companies make excellent inflation hedges through their ownership of a self-generating natural resources. As of December 31, 1957, Crown Zellerbach held over two million acres of timberland under various forms of tenure in the United States and Western Canada. Yields are maximized by artificial planting and building various roads and accesses into its timberlands to minimize forest fires. The total wood resources of the Company are in excess of 30 billion board feet.

Research, an important ingredient of any progressive company, has been expanded through addition to staff and facilities. Through its Central Research Department located in Camas, Washington many new uses for paper have been introduced. Improved tissues have been developed by softening with lanolin. Other new uses for paper have been developed by using chemical additions and by combining paper and foreign materials such as plastics and foil. In the lines of fundamental research, company is exploring the problems of wood delignification with the long-range objective of increasing the fiber yield from wood to produce a higher quality paper and achieve a more effective recovery of wood lignin for utilization in chemical products.

Financial Position

On the financial side, Crown Zellerbach's sales for the first quarter were down from $111 million in 1957 to $109 million in 1958. Second quarter sales were down from $117 million in 1957 to $115 million in 1958. However, third quarter sales of $122 million equalled last year's, and the fourth quarter will undoubtedly show some improvement. It is interesting to note in this connection that while paper and paperboard production declined 5% from 1.24 million tons to 1.18 million tons over the first nine months of the year, 1958 sales of lumber bettered 1957 by 34% rising from 106,070 to 142,090 board feet. Plywood production measured in the thousands of square feet advanced 19%, from 83,069 in 1957 to 98,996 in 1958.

In summation, sales for the first nine months of 1958 totaled $346 million, off 1% from $350 millions of sales in 1957 but the profit picture fared somewhat worse. Net was lower by some 10% from $1.83 per share in 1957 to $1.63 in 1958 for the period ending September 30th. The reasons for lower profit margins stem from four principal causes. First, price structure in the paper and paperboard segment of the industry was weak causing a



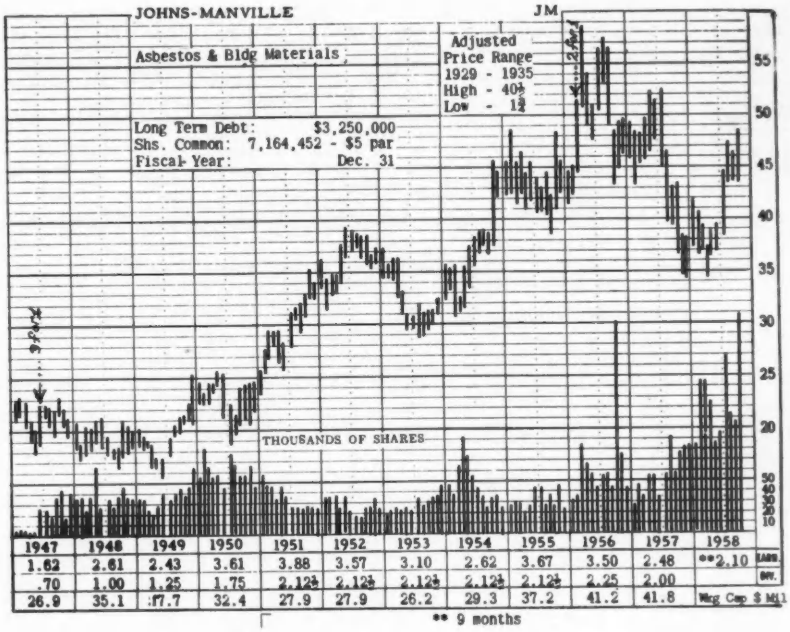
1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	
2.27	2.29	2.04	2.74	2.59	2.35	2.32	2.58	3.11	3.53	2.66	**1.63	EARN
.56⅔	.66⅔	.66⅔	.73⅓	1.03⅓	1.06⅔	1.10	1.30	1.53	1.80	1.80		DIV.
45.3	52.8	60.1	65.5	75.8	80.6	99.2	94.8	114.7	132.5	136.3	Wkg Cap $ Mil	

** 9 months

squeeze on margins. Second, the company was forced to absorb fixed charges on its excess capacity. Third, its paper mills were shut down by its Canadian subsidiary in British Columbia for six weeks of the year. Lastly, lumber and plywood prices were at a low level. While the 1st and 4th quarters are historically worse than the second and third quarters, there should be a noticeable pick-up because of improvement in demand and firming prices for all of the company's output. Although newsprint and paper are apt to remain competitive, the long term growth for Crown Zellerbach is inherent in the future expansion of the economy. Profit margins should expand as an increased output makes maximum utilization of Crown Zellerbach's present excess capacity. Sales are presently running about 75% of capacity. Company anticipates a 4% increase in sales in 1959 and a much greater improvement in the net profits. At its recent price of 57, selling some 21 times 1958

estimated earnings of $2.50 per share and around 14 times estimated cash flow of around $4.00, Crown Zellerbach appears to be a worthwhile holding. The yield is 3.1% on its $1.80 annual dividend.

Johns-Manville



Johns-Manville, the nation's largest and better managed manufacturer of asbestos products. is much more than just a building materials company, the classification usually assigned to it. Although roughly 50% of its volume comes from sales to the building trades, another 50% goes to a broad industrial market.

The company is not overly sensitive to fluctuations in the residential buliding cycle, inasmuch as one-third to one-half of its wide range of building materials, including shingles, roofings, and wall board insulation, goes into maintenance and repairs rather than into new construction. Moreover, profit margins in the building products division are probably lower than those in other areas of its operations, so that the impact on overall earnings of a downturn in these sales tends to be mitigated.

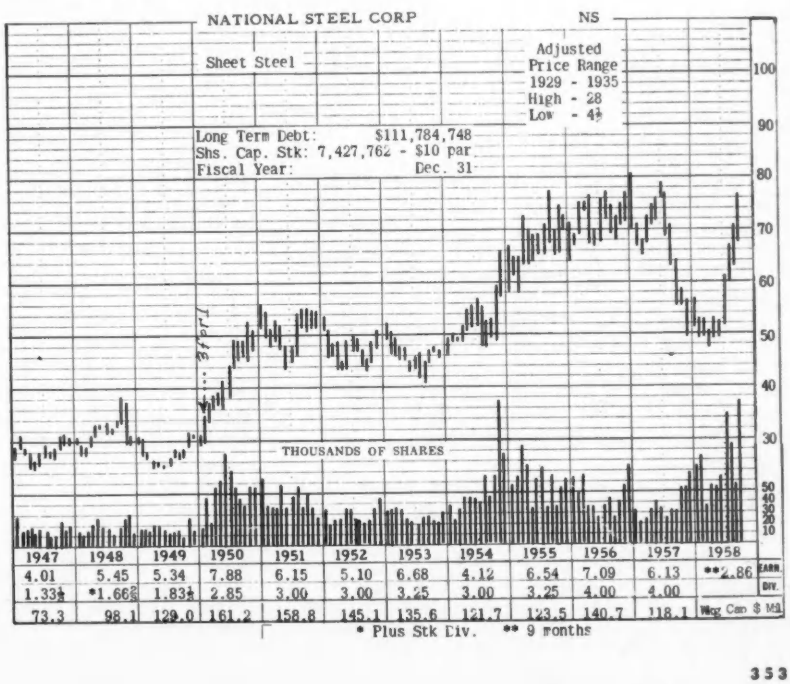
A strong growth element in JM's picture is the rapid sales expansion of asbestos cement pipe sold under the trade name "transite". Currently, this product makes up perhaps 10% or more of total sales. This pipe finds wide use in water supply systems and sewer mains. It competes with cast iron and concrete piping, and is believed to possess better lasting qualities. Profit margins on "transite" are understood to be higher than those on the company's other building materials. In order to broaden its markets, JM has agreed to acquire LOF Glass Fibres Company, maker of woven materials, building products and insulation, on the basis of one JM share for 2½ LOF shares. While this merger will result in a temporary dilution of JM's earnings, LOF's growth potential is large.

If an industrial firm wants to protect itself against or control the effects of fire, heat, cold or sound, JM probably makes a product to do it. The company supplies many leading industries with insulating materials that are essential to the regulation of industrial processes.

The principal ingredient in a great many of JM's products is asbestos, a non-inflammable chemically inert mineral substance. JM owns the largest asbestos mine in the world located at Asbestos, Quebec, Canada. No duties on the importation of asbestos into the U. S. from Canada exist. Its Canadian reserves of asbestos fibres exceeds 450 million tons. Aditionally JM is a 51% owner of Rhodesian Asbestos, Ltd. in Rhodesia.

Expansion and New Production Capacity

JM is on the last leg of a vigorous expansion program. By the end of 1958 eight new plants will have been erected since early 1957. Over the past decade capital expenditures have run well over



$200 million, primarily financed from internal sources, although the sale of common shares netted some $25 million in 1956. In 1957 JM spent $46 million on additions, replacements and modernization. Capital outlays this year are expected to decline sharply, perhaps below the approximate $15 million depreciation and depletion allowance.

The coming onstream of substantial new productive capacity just when demand for its products was weakening in 1957 and early in 1958 created a heavy burden for JM. In conjunction with a poor residential housing year, higher costs and onset of the economic recession, sizable start-up expenses were responsible for a sharp decline in 1957 earnings to $2.48 a share from $3.50 in 1956. First quarter earnings in 1958, also penalized by break-in costs, were down to 27¢ a share from 41¢ the year before.

A sharp turnabout in earnings results has taken place in the second and third quarters, however, as business shook off the drag of the recession and homebuilding and public construction picked up. A slackening in start-up expenses and a cost reduction program helped raise second quarter earnings to 85¢ a share versus 79¢ a year earlier and third quarter income to 98¢ as against 80¢. Earnings improved despite the fact that sales decreased in both periods. Nine-month earnings were $2.10 a share compared to $2.01 a year before. For the full year earnings may reach $2.75.

Under continuing favorable conditions, management expects sales in 1959 to increase 3% to 5% above 1958, with earnings showing up better too. But, of course, much will depend on several key factors. What impact will tightening mortgage money have on residential building? Is the Federal Government going to cut back sharply on public construction? Will economic recovery continue at a strong pace or falter? The answers to these questions may determine whether JM's new capacity will be utilized efficiently and whether mounting competition in asbestos will prove difficult. About JM's prospects in the 1960's there is perhaps less doubt. The expected sharp increase in family formations and growth of the economy should open wide new markets to easily absorb JM's expanded capacity.

At its recent price of 48, JM sells at 17.5 times estimated 1958 earnings and yields 4.2% on the indicated $2 dividend. It is suitable for long term holding.

Income Data

	Net Sales	Income Taxes	Net Income	Net Profit Margin %	Earnings Per Share	Div. Per Share
	(Millions)					
CROWN ZELLERBACH						
1958 (9 mos. ended Sept. 30)	$346.0	n.a.	$23.4	6.7	$1.63	$1.80[1]
1957	460.6	$24.6	38.0	8.2	2.66	1.80
1956	462.3	36.0	50.0	10.7	3.53	1.80
1955	306.3[2]	26.2	32.6	10.6	2.84	1.53
1954	297.9[2]	26.4	26.8	8.9	2.43	1.30
1953	252.7[2]	22.4	21.8	8.6	2.35	1.10
JOHNS-MANVILLE						
1958 (9 mos. ended Sept. 30)	223.0	10.9	15.0	6.7	2.10	2.00[1]
1957	308.2	11.6	17.7	5.7	2.48	2.00
1956	310.3	19.3	25.0	8.0	3.50	2.25
1955	284.7	18.3	23.5	8.2	3.67	2.12½
1954	253.1	11.9	16.6	6.5	2.62	2.12½
1953	252.6	15.0	19.6	7.7	3.10	2.12½
NATIONAL STEEL						
1958 (9 mos. ended Sept. 30)	381.3	19.7	21.2	5.5	2.86	3.00[1]
1957	640.9	43.5	45.5	7.1	6.13	4.00
1956	664.2	47.0	52.5	7.0	7.09	4.00
1955	622.0	48.2	48.2	7.7	6.54	3.25
1954	484.0	27.7	30.3	6.2	4.13	3.00
1953	634.1	69.3	49.1	7.7	6.71	3.25

n.a.—Not available.

1—Full year 1958.

2—Year to April 30.

Balance Sheet Data

	Crown Zellerbach Corp. 6/30/58	Johns-Manville Corp. 12/31/57	National Steel Corp.
	(Millions)		
Long Term Debt (Stated Value)	$106.9	$ 3.2	$111.7
Preferred Stock (Stated Value)	$ 29.0	None	None
No. of Common Shares Outst. (000)	13,814	7,163	7,409
Common Stock & Surplus	$340.3	$202.5	$437.4
Cash & Marketable Securities	$ 40.0	$ 16.4	$ 67.7
Inventories, Net	$ 88.7	$ 32.9	$ 66.7
Receivables Net	$ 45.8	$ 35.2	$ 56.9
Current Assets	$178.2	$ 84.6	$191.4
Current Liabilities	$ 46.5	$ 42.7	$ 73.6
Net Working Capital	$131.7	$ 41.9	$117.8
Current Ratio (C.A. to C. L.)	3.8	1.9	2.6
Net Property	$323.0	$144.1	$424.1
Total Assets	$538.4	$257.8	$660.7
Book Value Per Share	25.43	$ 29.40	$ 58.74
Recent Price of Common Stock	57	48	75
Price Range 1957-1958	58¾-40⅛	52¼-34¼	80¼-47⅛
Price Earnings Ratio	21.0[1]	17.5[1]	16.7[1]
Indicated Dividend for 1958	$ 1.80	$ 2.00	$ 3.00
Dividend Yield	3.1%	4.2%	4.0%

1 Based on estimated 1958 earnings.

National Steel

Among the many eyes focused on the automobile industry's sales in the coming months, perhaps none will watch with greater interest than those of National Steel. This fifth largest steel producer is a major supplier of flat rolled steel to automobile manufacturers. It was the poor auto year that hurt company earnings severely in the first half of 1958. About 45% of the

(Please turn to page 372)

Companies Showing Better Than Average Earnings Improvement in 1958

►And Which Offer Promise for 1959

By ROBERT C. RINGSTAD

INVESTORS looking toward 1959 may quite naturally view market prospects with a certain degree of trepidation. In the mad dash to board the equity bandwagon, the prices of leading shares have been bid to levels considered rather unrealistic by seasoned market observers. It is too early to predict whether economic recovery will continue unabated or level off. Nevertheless, several market valuations appear to have over-optimistically discounted the extent of potential earnings recovery over the next year and at this point, many investors are reluctant to commit their founds to shares thus made vulnerable to any disappointing developments, either on the broader economic scene, or within the particular companies themselves.

The stocks presented herein for consideration have mostly increased their interim earnings over the like 1957 periods, and in some cases enjoyed good market performances. However, they do not appear exorbitantly priced in relation to their earnings and so may benefit in a market which promises to be more selective. Those investors seeking a measure of diversification in their portfolios, but not desirous of assuming the risks inherent in stocks selling at unreasonable multiples, could look to this list. It contains a sprinkling of solid income, growth, and more speculative stocks.

American Airlines ranks number one in the domestic airlines industry as measured by revenues and milage of routes. This carrier has recorded an excellent growth in total operating revenues, but unfortunately, net income has varied widely. The airlines, however, stand on the threshold of a promising new era, that of the jet age. American is scheduled to be the first of the domestics to put its jets into operation, the immediate effect of which should be marked increases in operating efficiencies, and undoubtedly, also, some traffic that might

normally have accrued to the competing carriers. The airlines, industry, including American, is not without its problems. Labor difficulties have quickly cropped up with pilots, flight engineers and mechanics. The tone at this writing, a strike is in progress, the bargaining is far from favorable, and strikes have rather mercilessly been concentrated in the lush holiday travel period. There are also the problems of regulation. On the favorable side are factors which should outweigh the above in time. American operates many long, non-stop flights and enjoys the best load factor in the industry. Recent fare increases indicate that the C.A.B. recognizes the plight of the airlines and another rate boost is under consideration. Earnings should benefit accordingly.

Armstrong Cork is a producer of a wide variety of products, which fall broadly into three categories; building materials, packaging materials and industrial specialties. Building products, which usually account for about 60% of sales, include hard surface floor coverings, acoustical and insulating materials and wall finishes. Glass containers and closures are the primary packaging products, while the industrial specialties include cements, resins, finishes, pipe coverings and asphalt among several. A poor residential housing year affected earnings adversely in 1957, but an upturn in this sector of the economy has resulted in progressively better earnings performance in the first three quarters of this year. While the shorter range picture for residential construction is somewhat clouded by a shortage of mortgage money and other factors, there is good reason to believe that year-to-year comparisons will be favorable. Armstrong has no long term debt and is in very healthy financial condition. The shares, though cyclical, offer good longer term attraction for moderate growth.

California Electric Power is a utility serving a small, but rapidly growing, area of the country. The principal cities served are Riverside and San Bernadina, California, which markets it serves along with Southern California Edison. Since 1950, revenues have more than doubled as did net income, but net per share has lagged as equity financing diluted earnings growth. Revenues are fairly evenly divided among residential, commercial and industrial users. The area is one of agricultural activity and related canning and other processing operations, mining and important military installations. Barring further equity financing which would dilute earnings further the shares are an attractive commitment in the so-called growth utilities.

Celanese is a company that should participate fully in the brisk recovery which give evidence of starting in the textile industry. While not cheap on expected $1.75 earnings for 1958, the shares are not overdiscounting earnings which could be at a good increase by mid-1959. Diversification has played an important role in Celanese' efforts to overcome the vicissitudes of the hotly competitive synthetic fibers industry. Chemical operations presently account for about 30% of volume, with acetate and Arnel fibers the remainder. Arnel is finding increasing acceptance as a blend with other fibers, and a new polyester plant is being constructed with a 16 million pound capacity, which can be expanded to 30 million pounds. Celanese has also formed a joint effort with Imperial Chemical Industries of England to produce a polyester fiber known as Teron, expected to be competitive with Dacron. Celanese' export business has grown 50 fold since 1950, and the current $10 million volume could double next year. Earnings amply cover the $1 dividend.

Selected Companies Showing Above Average Improvement

	Earnings Per Share 1957	1st 9 Months: Net Sales 1957 (Millions)	1st 9 Months: Net Sales 1958 (Millions)	1st 9 Months: Earnings Per Share 1957	1st 9 Months: Earnings Per Share 1958	3rd Quar. 1958: Net Sales	3rd Quar. 1958: Earnings Per Share	Estimated Earnings Per Share 1958	Div. Per Share 1958	Price Range 1957-1958	Recent Price	Div. Yield
American Airlines	$1.31	$231.8	$238.8	$1.07	$1.33	$85.0	$.66	$1.90	$1.00	25¾-14	24	4.1%
Armstrong Cork	2.10	185.6	182.5	1.60	1.82	63.6	.70	2.40	1.40	36⅞-20¼	38	3.6
Celanese Corp. of Amer.	1.94[1]	145.5	163.5	.86	1.12	59.7	.55	1.75	1.00	30⅜-10⅞	30	3.3
Champion Spark Plug	2.28	(NA)	(NA)	(NA)	1.89	(NA)	.72	2.40	1.35	39¼-28½	34	3.9
Columbia Broadcasting Sys. "A"	2.82	275.2[2]	300.8[3]	1.82[2]	2.10[3]	99.3[4]	.51[4]	3.25	1.00[8]	41½-23½	38	2.6
Combustion Engineering	2.42	156.9	202.5	1.45	1.75	87.8	.62	2.75	1.12	34⅝-20¼	32	3.5
Commercial Credit	5.33	2,909.9[5]	2,335.9[5]	4.07	3.95	758.5[5]	1.31	5.30	2.80	65 -42¾	61	4.5
Food Machinery & Chem.	2.30	241.8	241.0	1.77	1.80	84.4	.60	2.35	1.20	45¼-21⅜	42	2.8
International Tel. & Tel.	3.12	436.7	452.2	2.35	2.51	153.8	.79	3.90	1.80	65½-25¾	64	2.8
Minute Maid Corp.	d1.60	83.2	77.0	d.56	1.95	26.9	1.14	2.80	.45	18⅞- 4⅝	16	2.8
Schenley Industries	2.45[6]	—	—	—	—	—	1.25[7]	3.58[6]	1.00[8]	48⅛-16⅝	44	2.2
Spiegel, Inc.	1.75	78.1	84.0	.45	1.05	29.1	.40	2.35	1.10[8]	27⅝- 8⅛	22	5.0
Twentieth Century Fox-Film	2.49	96.5[2]	94.1[2]	2.13[2]	2.87[2]	28.0[9]	.59[9]	3.40	1.60	42⅛-19⅝	37	4.3

d—Deficit.
NA—Not available.

1—Included spec. credit of $.83 a share.
2—39 weeks ended Sept. 28, 1957.
3—40 weeks ended Oct. 4, 1958.
4—14 weeks ended Oct. 4, 1958.
5—Gross receivables acquired.
6—Fiscal year ended August 31.
7—Est. for 1st fiscal quar. ended 11/30.
8—Plus stock.
9—13 weeks ended Sept. 27.

Champion Spark Plug made its Big Board debut a few months ago when a portion of the closely held stock was made available to the public. (Over 80% of the shares remain closely held.) Champion manufactures the famous Champion Spark Plugs, with a broad line covering all internal combustion engine uses. While the original equipment market is an important one, the primary outlet is the more stable, and steadily growing, replacement market. The company estimates that 90% of 1957 sales were for such purposes. Its largest single customer took only 7% of 1957 sales, demonstrating that this is not one of the "auto parts" companies having such heavy dependance on original automobile production in any one year. Champion is the acknowledged leader in this industry, although the field is competitive. Its past ten year growth in sales and earnings has been impressive, and in this period, net per share has tripled. Dividends have been liberal, averaging better than 50% payout. In the first six months of 1958, net per share amounted to $1.17 compared to $0.96 in the like 1957 period. An estimate of $2.40 for the year appears reasonable, and considering the past record, the shares do not seem overvalued.

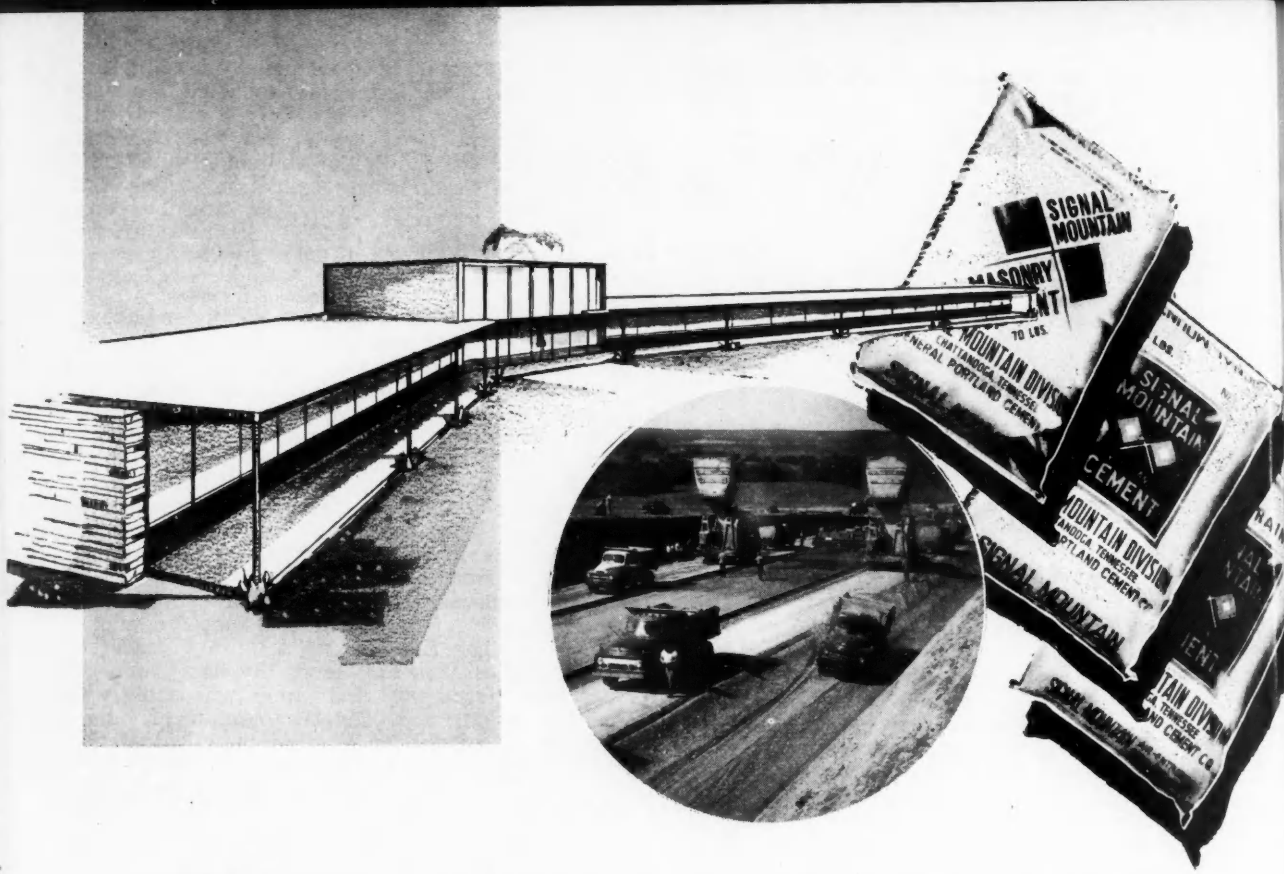
Columbia Broadcasting System is one of the nation's three major radio and television broadcasting networks. The company operates through six divisions, but TV broadcasting probably accounts for the lion's share of profits. As the fastest growing advertising media, TV can be expected to continue its revenue gains of recent years, although perhaps at a slower rate. In this respect, CBS has demonstrated an outstanding programming capability and thus has captured close to half of total network advertising outlays. Earnings growth has kept pace with revenue increases, both more than tripling since 1950. While there are some signs that network systems are losing favor to the independent TV station concept, the future is still considered bright. Earnings this year should exceed $3 per share, and at their present level, the shares do not appear excessively valued by the market.

Combustion Engineering is one of the two major manufacturers of steam generating equipment, the primary outlet being the electric utilities. Certain industrial equipment is also produced, including chemical recovery equipment for the pulp industry, air separators, pressure vessels, etc. It is mainly projected expenditures by the utilities which determine the company's sales level, and while the longer range implications are for continued expansion of electric generating capacity, it is possible that the utilities spending will trail off slightly in the next two years. Earnings this year should approximate $2.75 and should hold around that level in 1959. The shares are not excessively valued. A debenture, issue, convertible at $30 a share to 1981, represents a potential 15% dilution.

Commercial Credit is the second largest publicly-owned installment finance concern. Its primary business is the financing of automobiles, with related activities of insurance, other type financing, factoring, and manufacturing rounding out its operations. In October of this year, the company announced a plan to aid automobile dealers enter the lucrative car and truck leasing business. Finance operations contribute about 60% of net income, while insurance and manufacturing about equally account for the remainder. The latter is conducted through ten subsidiaries engaged in a variety of enterprises, ranging from meat packing to fire works. These companies have paid over $36 million in dividends to Commercial Credit since acquisition of the first unit in 1942. Earnings have withstood the poor automobile year very well in 1958 and are estimated at around $5.30 for the full year. Dividend payout has averaged about 50% in the past five years.

Food Machinery & Chemical sales are divided about 44% chemicals, 40% machinery, and 16% defense products. For the past few years, the company's earnings have lagged behind expectations due to problems associated with its chemical acquisitions, but the company now appear to be poised for a period of sustained earnings growth. After considerable time and expense, its chemical operations have all been placed on efficient, profitable bases and the earnings performance in 1958, when cyclical companies experienced a falling-off, attest to the basic improvements effected. The company is an important producer of a hydrazine product known as U.D.N.H., a first stage liquid fuel for many rockets. Its other chemical products are basic to many industries. The machinery division products include food processing and handling machinery, materials handling and packaging equipment, agriculture specialty items for spraying insecticides, and a line of power gardening equipment.
Military products include missile handling gear and a line of air-droppable vehicles, now under field test by the Army. Earnings are estimated at $2.35 for 1958 and could climb to $2.75 next year.

International Telephone & Telegraph has been a sensational market performer of late, as investors became aware of the important electronics work this company does. I.T.&T. is a holding company whose subsidiaries are engaged in the development and manufacture of telephonic, electrical and electronic, and communication equipment. Formerly the company was primarily an operator of cable and foreign telephone installations, but the war saw much damage to properties, confiscations and foreign exchange difficulties crop up, and emphasis was switched to manufacturing. Only in Latin and South America are cable and telephonic operations continued, and they contribute less than 10% of total revenues, but they are growing. The manufacture and sale of electronic and telephone equipment in Europe and South America accounts for about 65% of total revenues, while the remaining 35% is derived from domestic activities. A new management team in the past few years has done a remarkable job of improving all phases of operations, and sharp earnings gains now evidencing the basic improvements, should continue in the years ahead. Extensive research activities are carried on and with a substantial portion of the work centered in foreign countries, the company is able to get far more for its research dollar. Several important developments have come out of the laboratories, where work is carried on in data-processing, transistors, automatic telephone installations, and other areas. I.T.&T. is an important factor in air navigation with its TACAN system and in the missile program. Earnings this year should be in the $3.90 area. The stockholders will vote on January 22 on proposed 2-for-1 stock split which will also *(Please turn to page 372)*



All is not *"Sweetness and Light"* in the CEMENT INDUSTRY

By J. C. CLIFFORD

MANY fine, broad highways are scheduled to be opened to traffic later this year, but the cement industry hardly hopes to find a smooth path in its 1959 prospects. Instead, even though conditions promise moderate improvement over disappointing results of the twelve months just ended, the coming period seems destined to experience considerable rough going. Industry spokesmen are far from downhearted, however, for they argue that 1959 may come closer to being a normal year than for almost a decade and should offer an opportunity for undertaking sales campaigns that could open new markets for cement.

Before elaborating on this challenging theory, it may be better to consider some of the problems likely to be confronted and to ponder fundamentals of the industry that set it apart from some other constitutents of the business world. In the first place, transportation represents one of the most important elements of cost and imposes tight restrictions on potential consuming market areas. It must be evident that cement is so heavy and bulky that freight charges and other handling costs are more significant than either the raw materials or labor required in production. It is estimated that distribution represents about 25 per cent of delivery costs. Hence, a market area is limited to about 200 miles from plant site, and average shipments may not be much more than half this distance.

Transportation of limestone required in production of cement also is costly, so that plants should be located near sources of raw material as well as adjacent to markets. Considering these factors, it is easy to understand that too many plants in a given area with capacity well in excess of normal market demands may encounter rugged competition, whereas an unusual expansion in consumer requirements—for industrial construction or road building in new areas—could prove a boon to a cement plant having almost a monoply in the section.

As an illustration, it may be pointed out that even in a recession year like 1958 cement plants serving the Chicago area operated for a good part of the year not much below capacity, while the industry as a whole operated at between 70 and 75 per cent of capacity, it is estimated. Moreover, exceptional demand for cement in Florida in recent years enabled producers serving the Southeast to fare well above the average until several new facilities were put in operation and took up the slack. As a matter

of fact, consumption of cement in Florida has been running about three times the immediate postwar volume, while in more settled sections of the country demand has only doubled in the last dozen years.

Indications that competition will remain keen this year, tending to hold down profit margins, are to be found in the decision of major producers to guarantee current prices through all of 1959 to regular customers. Ordinarily the industry has quoted prices for only three months in advance. In addition, wage contracts come up for renewal next spring and settlements of new agreements could add to manufacturing costs. By adopting price schedules running through the year managements have not only imposed a ceiling on selling prices but have put forth an argument that they cannot afford to raise wages. Time will tell what force this argument has in dealing with leaders of organized labor.

Costs appear likely to be larger by reason of the fact that relatively few producers can hope to operate at capacity—except perhaps for a few weeks at a time. The industry's capacity has expanded some 25 per cent in the last two years to about 400 million barrels. It is generally believed that shipments for 1958 approximated 300 to 305 million barrels, or barely more than 75 per cent of capacity. Even assuming that further expansion in capacity this year may be nominal and that demand may improve by 5 to 10 percent (at an optimum estimate) it is plain that considerable excess capacity will be available as a handicap on profit margins.

Likely Demand in 1959

As mentioned earlier, more than adequate production facilities afford an opportunity to undertake more intensive sales efforts. Undoubtedly large orders for cement have been lost to competitive materials, especially in road work, simply because supplies were unavailable in earlier years when plants were operating at 95 to 100 per cent of capacity and accepting only the most advantageous orders, that is, the larger bookings. Now, with greater sales effort, industry spokesmen believe that greater volume can be attained without any unusual expansion in business activity.

As a matter of fact, moderate gains may be expected in demand from normal sources this year. Construction was handicaped severely by adverse weather conditions early in 1958. Under more favorable conditions, results in the March quarter well could prove considerably more satisfactory for major companies and capital goods programs deferred a year ago may be reinstated to some extent this year. Highway projects are expected to gain momentum. Industry statistics suggest that road construction may require 95.5 million barrels of cement this year against an estimated 83 million for 1958 and 74 million in 1957. Next year the nation's highway program is expected to call for 107 million barrels, or approximately one-third of estimated production this year of about 320 to 325 million barrels.

Meeting Cost-Price Problems

In this brief outline, we have seen that the cement industry is confronted with problems of rising costs and keen competition as well as the threat to profit margins of excessive capacity. But there are some favorable factors that should be taken into consideration in appraising prospects. For one thing, excess capacity as not as serious a handicap as it may seem — at least for companies whose plants are widely scattered. Production may be cut back by operating on short work weeks. In fact, some companies regard older, less efficient plants as stand-by facilities to be used only in times of extraordinary demand. Moreover, modernization steadily is being attempted in older plants to reduce labor costs, especially in handling materials and finished products.

In this connection, it may be helpful to cite specific examples of what can be done to improve manufacturing costs. In its new Miami plant, opened only a few months ago, Lehigh Portland Cement was able to achieve substantial savings. With the benefit of new equipment, the plant requires only half as much manpower per unit of output as the average of all the company's plants in 15 different locations. Likewise, in Maryland, where productive capacity was increased *(Please turn to page 379)*

Statistical Data on Leading Cement Companies

	Earnings Per Share 1956	Earnings Per Share 1957	1st 9 Months Net Sales 1957 (Millions)	1st 9 Months Net Sales 1958 (Millions)	1st 9 Months Earnings Per Share 1957	1st 9 Months Earnings Per Share 1958	Estimated 1958 Earnings Per Share	1958 Div. Per Share	Price Range 1957-1958	Recent Price	Div. Yield
Alpha Portland Cement	$3.75	$2.90	$15.8[1]	$13.0[1]	$1.63[1]	$ .86[1]	$2.75	$1.50	42⅜-23½	38	3.9%
General Portland Cement	4.58	3.36	27.9	33.8	2.48	3.17	4.35	2.30	87½-47⅝	81	2.8
Ideal Cement	4.32	4.15	60.5	67.1	3.39	3.60	4.40	2.00	96 -50	95	2.1
Lehigh Portland Cement	2.82	1.70	52.4	57.4	1.70	1.59	1.90	1.00	45¾-26½	35	2.8
Lone Star Cement	2.60	2.03	72.6	73.6	1.67	1.43	2.00	1.20	40⅛-25¼	34	3.5
Marquette Cement Mfg.	2.74	2.71	37.0	40.8	2.18	2.60	3.20	1.60	58½-25	58	2.7
Pacific Cement & Aggregates	1.27	1.03	18.7	19.6	.62	.97	1.40	.85	21 - 8⅞	20	4.2
Penn-Dixie Cement	3.73	2.14	30.7	36.0	1.52	2.26	3.00	1.40	40½-21	37	3.7

1—1st 6 months.

FOR PROFIT AND INCOME

Historic

The proposed 3-for-1 split of American Telephone, to be followed by a 10% boost in the dividend from $9 to the equivalent of $9.90, evidently caught the public by surprise, although a possible split had been rumored for some time; and logical arguments for some change in the company's policy — frozen since 1922 — were cited here several months ago. The stock, around 223 at this writing, had a sharp run-up. Although earnings are subject to modest annual improvement at best, many "little people" may now mistakenly regard it as a growth stock and the illusion might take a long time to die. The $3.30 dividend on the split shares could well prove to be "frozen" again, at least for some years. In a market anything like the present one, our notion is that the stock might sell on roughly a 4% to 4.5% yield basis, against considerably more on a past average — or in the vicinity of 220 to 250. Few old-time holders will sell it at any level. Amateurs of the type reaching for it on the run-up may buy more. Professionals, including some mutual funds, who bought it for split possibilities, probably are interested in profit taking. It is a high-grade investment stock; but, if your objective is appreciation, we cannot recommend the stock at present prices.

Disappointment

Abandonment of the proposed merger of Warner-Lambert with Reynolds Tobacco was unexpected. The initial effect was a mild easing in Reynolds, now around 85, against earlier high of 90⅜; a rise in Warner-Lambert to a new high of 97½. A split of Reynolds is still possible and so is some later diversification move; but the recently-raised $4 dividend probably will stand until late 1959. The market is betting on both a split and a boost in the $2.50 dividend, possibly to $3, in the case of Warner-Lambert. Estimated around a record $6 a share for 1958, earnings of the latter have risen about 206% in the last six years; those of Reynolds, around $7.50 a share for 1959, close to 159%. Warner-Lambert is now selling around 17 times earnings, and

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1958	1957
American Zinc, Lead & Smelt.	Quar. Sept. 30	$ .21	$ .01
Texas Instruments	Quar. Sept. 30	.44	.29
Houston Lighting & Power	12 mos. Oct. 31	2.99	2.68
Sunbeam Corp.	Quar. Sept. 30	.80	.71
Archer-Daniels-Midland Co.	Quar. Sept. 30	1.01	.72
Lockheed Aircraft Corp.	9 mos. Sept. 30	4.48	3.83
Minn. Mining & Mfg. Co.	Quar. Sept. 30	.71	.58
Idaho Power Co.	9 mos. Sept. 30	2.03	1.75
Goodyear Tire & Rubber	Quar. Sept. 30	1.91	1.48
Boeing Airplane Co.	9 mos. Sept. 30	3.88	3.60

would yield less than 3.2% on a $3 dividend. That is not too extreme relative to the present general level of drug-toiletries-cosmetics stocks, but neither it is by any means cheap. Reynolds is selling at little over 11 times 1958 earnings, with a sizable further 1959 profit gain likely; and yields about 4.7%. Merger on the terms proposed would have diluted Reynolds' earnings for at least a year or so ahead. Conclusion: Stay with present holdings of both stocks.

Stock Groups

With few exceptions, divergent movements among the stock groups are not very wide at this writing and have not been in effect long enough to establish definite trends. This probably will shift to some extent, with January profit taking in some popular groups by people who deferred action beyond the year end for tax reasons. Conversely, there will be some shifting of funds to groups regarded as behind the market, but subject to recoveries. Temporary or not, here are the principal groups outgaining the market at this time: aluminum, copper, electrical equipment, radio-television-electronics, finance companies, office equipment, bank stocks, electric utilities, department stores and food chains. Oils as a whole are behaving worse than the market but that reflects current poor action of the internationals. On average, domestic oils are faring a little better than the market.

Laggards

Here are the principal groups which are lagging at this writing: aircraft, air transport, auto parts, building materials, baking, drugs, dairy products, farm machinery, machine tools and general machinery, movies, paper, publishing, liquor, ship-building, textiles, tires, tobaccos and natural gas pipeline stocks, the latter in a correction of the recent fast run-up following the Supreme Court's welcome decision in the "Memphis" case.

Another Look

Revlon was recommended here at 40 in our November 8 issue; and has risen currently to 54. We still think it might work up to the vicinity of 60 or more over a reasonable period of time. If you bought it, stay with it. Food Giant Markets was recommended here at 25½ in our issue of last October 25 and is now up some 30% to 33. We think the stock will go higher on a long-term basis, but, allowing for possible dilution via conversion of preferred shares, the stock seems about amply priced for the time being. If you bought it for speculative gain, we now suggest profit taking.

Strong

Income stocks meeting above-average demand at this writing include: American Stores, Brown Shoe, Cleveland Electric, Columbia Gas, Consolidated Edison, Continental Insurance, Family Finance, Gulf States Utilities, General Finance, Oklahoma Gas & Electric, Pacific Lighting, Southwestern Public Service, Sunshine Biscuits and Woolworth.

Others

Among the "better names", here are some other stocks faring well currently: General American Transportation, General Electric, International Business Machines, National Cash Register, Otis Elevator, Sears Roebuck and Union Carbide. Among more speculative issues, these are in favor as of now: American Steel Foundries, Beckman, Copperweld Steel, Dana Corp., Federal Mogul, General Controls, Monterey Oil, Pittston, Republic Steel, Thiokol and Whirlpool Corp.

Not Likely

Since American Telephone was split, why not Rohm & Haas and Superior Oil of California? Both have been among the highest-priced stocks for many years. Unlike Telephone, both are family dominated and neither management has shown any interest in a broadened list of stockholders. While splits cannot be ruled out as ultimate possibilities, they are not now foreseeable. We see no allure in either of these issues.

If You Are Patient

Joy Manufacturing is the leading maker of machinery and equipment for the coal mining industry. It also makes a variety of equipment for other industries. Foreign business is substantial and apparently subject to considerable expansion on a longer-range basis. The company has, of course, been hit hard by the general slump in demand for capital goods. For the fiscal year ended September 30, profit fell to $2.33 a share, from the prior year's record $6.34. A moderate improvement seems likely in the current year and, together with comfortable finances, could well permit maintenance of the $2 dividend. A full profit recovery might be something like two years away; but, in the kind of market we have been having, that is not necessarily a barrier to a sizable, even though partial, recovery in the stock. It has made a base over a period of some months, and offers possibilities for patient buyers around 48 in a 1956-1958 range of 72-35⅛. With the bad news out, the stock may not ease much in market reactions. It could be materially higher by the end of 1959.

Growth?

Scott Paper is a good company, but now looks more like a steady earner and dividend payer than a growth stock. However, it is

(Please turn to page 384)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

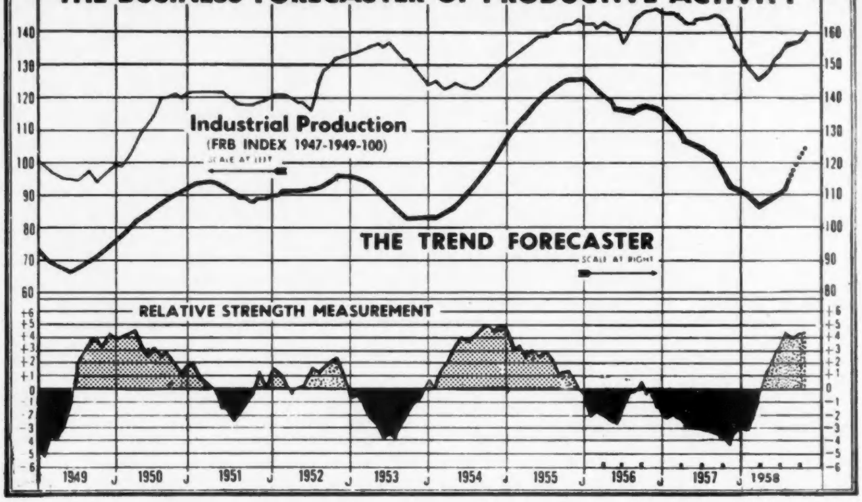
		1958	1957
Anaconda Co.	9 mos. Sept. 30	$1.80	$3.36
McGraw-Edison Co.	Quar. Sept. 30	.53	.69
Olin Mathieson Chemical	Quar. Sept. 30	.14	.62
General Precision Equip.	9 mos. Sept. 30	.05	2.70
Halliburton Oil Well Cement	Quar. Sept. 30	.94	1.51
Texas Gulf Producing	9 mos. Sept. 30	.63	1.28
American Bosch Arma	9 mos. Sept. 28	1.26	2.26
American Metal Climax	Quar. Sept. 30	.28	.42
Cincinnati Milling Machine	16 weeks Oct. 4	.26	1.15
Electric Storage Battery	Quar. Sept. 30	.43	.89

the Business

Business Trend Forecaster *

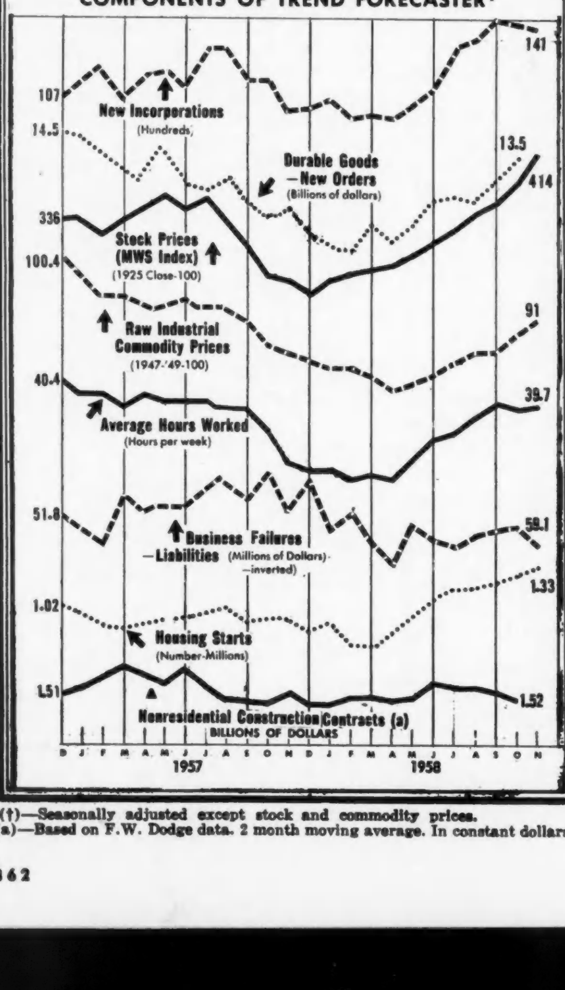
INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.

THE BUSINESS FORECASTER OF PRODUCTIVE ACTIVITY



***W**ith the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.

COMPONENTS OF TREND FORECASTER†



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Based on F.W. Dodge data. 2 month moving average. In constant dollars.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook—the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

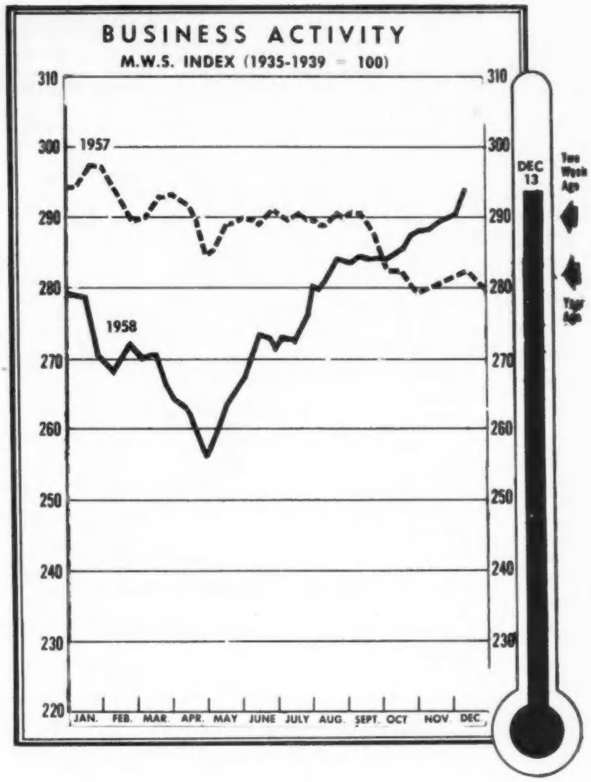
We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

In the most recent month for which data are now available, the great majority of the component series entering into the Trend Forecaster have continued in a favorable trend. Even on a month-to-month basis, five of the eight series have remained in an uptrend; the exceptions are nonresidential construction, new incorporations, and business failures (inverted). On the basis of the intermediate trend, all of the series except nonresidential construction remain in an uptrend, and the Relative Strength Measure is in the + 4 range indicative of continuing near-term recovery, to carry through at least the first quarter of 1959.

Some of the characteristic timing aspects of the Relative Strength Measure have now assumed an increased interest in the current cycle. For example, the trough in the Relative Strength Measure seems to have occurred about October 1957, or just a month or two after the recession began. This is about the way the series behaved in the 1953-1954 recession. In 1954, a peak, in the +5 range, was reached just about when recovery began; now the index has climbed to + 4, after only a few months of recovery.

Analyst



CONCLUSIONS IN BRIEF

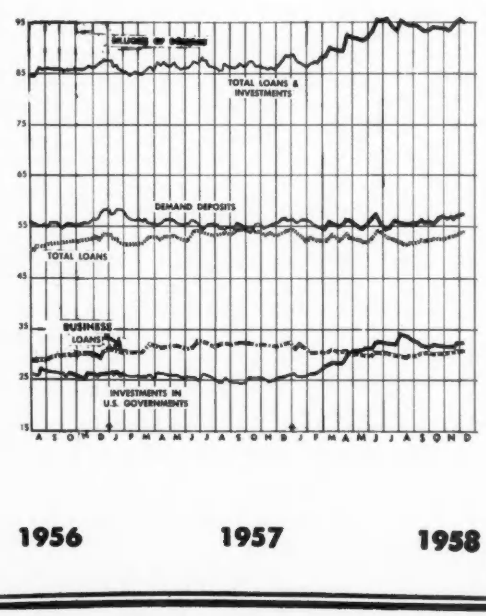
PRODUCTION—output rising, as auto industry tries to catch up from strike losses. Gains also continuing in other hard-goods lines, both consumer and non-consumer. Soft-goods output about stable. Small further advance in total activity probable in the first quarter of 1959.

TRADE—Successful Christmas starts retail business off in good shape for 1959. For first half, outlook is for substantial percentage gains over comparable period of 1958, when trade was still suffering from recession.

MONEY AND CREDIT—Interest rates have recently remained extraordinarily stable. Demand for funds—from business and government—is still rising, and slight further strengthening of rates is possible in next few months.

COMMODITIES—while demand is still gaining, price advances of October and November were rapid; many industrial commodities now adrift. As with interest rates, however, further improvement in demand suggests strengthening rather than weakening in commodity prices, in next three months.

MONEY AND BANK CREDIT
(WEEKLY REPORTING MEMBER BANKS)



GENERAL readers of the business press over the past six weeks might well have felt that the broad conditions of American business were changing very rapidly indeed.

In the period from late October to early December, progress of the business recovery appeared to be called into serious question. Unemployment did not seem to be falling rapidly, employment itself was not rising rapidly, retail trade seemed to be less than boom-like, housing starts seemed to be running into shortages of funds and, perhaps most serious of all, automobile sales seemed to be much less than normal for the time of year.

During this period, the steel production rate also flattened out, interest rates stopped rising, and manufacturers backlogs failed to begin to rise, as they should have in a characteristic boom. Observers of the business trend also noted that the industrial production index, one of the foremost guides to the general business situation, had slowed its rate of rise very perceptibly. All of this suggested that the recovery itself had run into severe headwinds, and quite a few observers were beginning to get shaky about the outlook.

But since early December the news has been better. We now see that new orders in manufacturing have advanced notably, backlogs have turned up, housing starts have continued to advance. In November, according to the mid-December release of the Federal Reserve Board, the industrial production index advanced very sharply.

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Nov.	141	138	139
Durable Goods Mfr.	1947-'9-100	Nov.	152	145	154
Nondurable Goods Mfr.	1947-'9-100	Nov.	135	134	128
Mining	1947-'9-100	Nov.	123	122	123
RETAIL SALES*	$ Billions	Nov.	17.2	16.9	16.9
Durable Goods	$ Billions	Nov.	5.6	5.4	5.7
Nondurable Goods	$ Billions	Nov.	11.6	11.6	11.2
Dep't Store Sales	1947-'9-100	Nov.	135	136	129
MANUFACTURERS'					
New Orders—Total*	$ Billions	Oct.	27.8	27.0	26.2
Durable Goods	$ Billions	Oct.	13.5	12.8	12.2
Nondurable Goods	$ Billions	Oct.	14.3	14.2	14.1
Shipments*	$ Billions	Oct.	27.2	26.8	28.1
Durable Goods	$ Billions	Oct.	13.0	12.7	13.9
Nondurable Goods	$ Billions	Oct.	14.2	14.1	14.1
BUSINESS INVENTORIES, END MO.*	$ Billions	Oct.	84.8	85.0	91.1
Manufacturers'	$ Billions	Oct.	49.3	49.3	54.1
Wholesalers'	$ Billions	Oct.	12.1	12.1	12.8
Retailers'	$ Billions	Oct.	23.5	23.7	24.2
Dept. Store Stocks	1947-'9-100	Oct.	152	152	155
CONSTRUCTION TOTAL	$ Billions	Nov.	4.4	4.7	4.2
Private	$ Billions	Nov.	3.1	3.2	3.0
Residential	$ Billions	Nov.	1.7	1.8	1.5
All Other	$ Billions	Nov.	1.4	1.5	1.5
Housing Starts*—a	Thousands	Nov.	1330	1260	1009
Contract Awards, Residential—b	$ Millions	Oct.	1595	1460	1165
All Other—b	$ Millions	Oct.	1714	1756	1449
EMPLOYMENT					
Total Civilian	Millions	Nov.	64.7	65.3	64.9
Non-Farm	Millions	Nov.	51.3	51.1	51.8
Government	Millions	Nov.	8.1	8.0	8.0
Trade	Millions	Nov.	11.4	11.2	11.2
Factory	Millions	Nov.	11.9	11.7	12.7
Hours Worked	Hours	Nov.	39.9	39.7	39.3
Hourly Earnings	Dollars	Nov.	2.17	2.14	2.11
Weekly Earnings	Dollars	Nov.	86.58	84.96	82.92
PERSONAL INCOME*	$ Billions	Oct.	358	358	351
Wages & Salaries	$ Billions	Oct.	239	239	239
Proprietors' Incomes	$ Billions	Oct.	57	57	55
Interest & Dividends	$ Billions	Oct.	32	32	32
Transfer Payments	$ Billions	Oct.	27	27	23
Farm Income	$ Billions	Oct.	17	17	15
CONSUMER PRICES	1947-'9-100	Oct.	123.7	123.7	121.1
Food	1947-'9-100	Oct.	119.7	120.3	116.4
Clothing	1947-'9-100	Oct.	119.7	120.3	116.4
Housing	1947-'9-100	Oct.	127.9	127.9	126.6
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Oct.	110.0	108.9	106.5
Bank Debits*—g	$ Billions	Oct.	87.1	87.3	82.5
Business Loans Outstanding—c	$ Billions	Oct.	29.7	30.2	31.8
Instalment Credit Extended*	$ Billions	Oct.	3.5	3.3	3.5
Instalment Credit Repaid*	$ Billions	Oct.	3.4	3.4	3.4
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Oct.	2.8	7.2	3.1
Budget Expenditures	$ Billions	Oct.	7.1	6.6	6.5
Defense Expenditures	$ Billions	Oct.	4.2	3.8	3.6
Surplus (Def) cum from 7/1	$ Billions	Oct.	(8.8)	(4.5)	(5.9)

PRESENT POSITION AND OUTLOOK

Why the reversal? Major reason: automobile strikes had certainly slowed the pace of the recovery in October and early November, and had directly affected the demand for steel throughout the fourth quarter. With the end of the strikes, automotive production has risen; larger selections at dealers and an accumulation of orders have increased the selling rate, driving up retail sales; and the improved figures resulting therefrom have bolstered the optimism of businessmen and consumers alike. It remains to be seen, however, whether this improvement in demand for autos is more than a temporary upsurge resulting from transitory factors.

* * *

RETAIL TRADE—one of the hottest figures of recent weeks has been the behavior of retail sales. In November, they climbed sharply, even after seasonal adjustment, and were running at a $17.2 billion monthly rate (adjusted). The November gain in some measure reflected a slight improvement in auto sales, as supplies began to increase. But in December the automobile sales rate advanced further. Preliminary reports on Christmas business are still skimpy but indications are that December volume will set a new all-time record.

The record sales volume is, of course, coming out of a record level of consumer incomes. Consumers are buying heavily, and saving heavily — a condition made possible not only by larger earnings, but by the sharp increase in Government payments for social insurance, including unemployment benefits.

* * *

STEEL—the production rate has recently been sticking in the neighborhood of 75% of capacity, but a further gain in the operating rate seems probable for early 1959. In the first place, the auto companies will have to come in for more tonnage than in recent months. In addition, machinery lines may become more active, freight-car orders have increased, and steel goods for petroleum and natural gas facilities are expected to be in greater demand. On top of all this, it is quite probable that steel-consuming industries will be interested in accumulating steel, against the possibility of a steel

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1958 III Quarter	1958 II Quarter	1958 I Quarter	1957 III Quarter
GROSS NATIONAL PRODUCT	439.0	429.0	425.8	445.6
Personal Consumption	291.5	288.3	286.2	288.3
Private Domestic Invest.	53.7	49.2	49.6	66.7
Net Foreign Investment	0.5	0.5	0.5	3.6
Government Purchases	93.3	90.9	89.5	87.0
Federal	53.4	51.9	50.9	50.9
State & Local	39.9	39.1	38.6	37.8
PERSONAL INCOME	357.5	349.8	347.3	351.8
Tax & Nontax Payments	43.5	42.3	42.3	43.1
Disposable Income	314.0	307.5	305.0	308.7
Consumption Expenditures	291.5	288.3	286.2	288.3
Personal Saving—d	22.5	19.2	18.8	20.4
CORPORATE PRE-TAX PROFITS	—	32.0	31.7	44.2
Corporate Taxes	—	16.3	16.1	22.0
Corporate Net Profit	—	15.7	15.5	22.1
Dividend Payments	—	12.4	12.5	12.7
Retained Earnings	—	3.3	3.0	9.4
PLANT & EQUIPMENT OUTLAYS		30.3	32.4	37.8

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Dec. 13	294.1	290.3	282.6
MWS Index—per capita*	1935-'9-100	Dec. 13	218.8	216.0	213.1
Steel Production	% of Capacity	Dec. 20	75.4	73.5	68.1
Auto and Truck Production	Thousands	Dec. 20	102	170	171
Paperboard Production	Thousand Tons	Dec. 13	310	277	289
Paperboard New Orders	Thousand Tons	Dec. 13	275	344	254
Electric Power Output*	1947-'49-100	Dec. 13	246.2	242.0	230.3
Freight Carloadings	Thousand Cars	Dec. 13	589	594	603
Engineering Constr. Awards	$ Millions	Dec. 15	292	353	266
Department Store Sales	1947-'9-100	Dec. 13	293	245	285
Demand Deposits—c	$ Billions	Dec. 10	58.9	57.2	56.6
Business Failures	Number	Dec. 11	267	294	269

PRESENT POSITION AND OUTLOOK

strike at mid-year. This possibility is considered good indeed by most steel labor-management experts; if it eventuates, it is likely to find many steel consumers under-stocked.

The steel industry itself is now betting on about 115 million tons of steel production in 1959, compared with about 85 million tons in 1958. The year-to-year increase is thus very sizable, but it will leave annual steel production no higher than the level actually reached in 1958.

* * *

INVENTORY TURNAROUND—in the latest figures released by the Department of Commerce on the inventories of manufacturing companies, by stage of fabrication, some very interesting reversals have appeared. In October, finished goods inventories were declining, while purchased materials inventories were beginning to rise. This is the classical symptom of a rising level of inventory demand on the part of purchasing agents. If it persists it will foster higher demand for raw materials and industrial loans. As yet, no such accelerating inventory demand is at hand; but it could develop rapidly, and speculatively. The inventory statistics are accordingly worth a close watch for the next several months.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1958 High	Range Low	1958 Dec. 12	1958 Dec. 19
300 Combined Average	422.2	283.9	422.2	423.8H
4 Agricultural Implements	365.6	196.5	356.5R	351.1
3 Air Cond. ('53 Cl.—100)	121.4	87.8	121.4	121.4
9 Aircraft ('27 Cl.—100)	1247.4	982.2	1247.4	1227.8
7 Airlines ('27 Cl.—100)	993.7	638.8	976.0R	987.8
4 Aluminum ('53 Cl.—100)	435.8	253.4	425.7	428.2
6 Amusements	198.7	125.0	192.8	191.6
8 Automobile Accessories	401.4	298.9	401.4	398.6
6 Automobiles	93.3	40.8	89.9	93.3H
4 Baking ('26 Cl.—100)	38.5	28.5	37.9	37.7
4 Business Machines	1304.2	898.2	1261.0	1304.2H
6 Chemicals	684.4	509.5	664.1	679.3
5 Coal Mining	28.5	18.4	28.0	28.0
4 Communications	162.1	85.7	160.4	162.1H
9 Construction	155.6	107.5	152.4	155.6H
7 Containers	1105.6	707.3	1085.0	1098.7
7 Copper Mining	292.5	184.6	279.7	279.7
2 Dairy Products	147.7	115.6	144.3	143.1
6 Department Stores	117.9	78.9	117.9	117.9
5 Drugs-Eth. ('53 Cl.—100)	425.2	217.2	425.2	404.1
6 Elec. Eqp. ('53 Cl.—100)	264.2	195.8	262.3	260.4
2 Finance Companies	747.2	568.8	719.3	724.9
6 Food Brands	398.3	255.5	393.3	398.3H
3 Food Stores	275.1	182.2	267.8	275.1H

(Nov. 14, 1936 Cl.—100)	High	Low	Dec. 12	Dec. 19
100 High Priced Stocks	263.7	189.7	263.7	265.5H
100 Low Priced Stocks	559.7	334.7	559.7	561.0H
5 Gold Mining	839.5	530.5	808.6	829.2
4 Investment Trusts	182.9	144.4	181.5	181.5
3 Liquor ('27 Cl.—100)	1549.2	913.4	1549.2	1504.4
8 Machinery	453.8	343.8	443.5	440.1
3 Mail Order	262.3	143.3	242.0	243.4
4 Meat Packing	203.1	123.6	197.6	191.0
5 Metal Fabr. ('53 Cl.—100)	181.4	138.1	178.7	178.7
9 Metals, Miscellaneous	381.5	278.3	363.1	365.7
4 Paper	1170.1	841.8	1161.7	1161.7
22 Petroleum	835.4	629.7	829.0	835.4
21 Public Utilities	335.8	258.9	333.2	335.8H
7 Railroad Equipment	84.9	59.2	81.7	84.9H
20 Railroads	70.9	43.0	69.6	69.6
3 Soft Drinks	581.1	445.6	568.0	572.3
12 Steel & Iron	381.1	249.3	373.9	381.1H
4 Sugar	141.3	102.8	131.4	129.4
2 Sulphur	828.5	543.4	780.1	769.3
10 TV & Radio ('27 Cl.—100)	68.3	28.8	66.4	68.3H
5 Textiles	176.6	106.9	176.6	176.6
3 Tires & Rubber	210.4	142.3	204.2	210.4H
5 Tobacco	170.6	110.9	168.4	169.5
2 Variety Stores	322.7	239.3	320.5	322.7H
17 Unclassif'd ('49 Cl.—100)	245.6	145.4	245.6	238.7

H—New High for 1958. R—Revised.

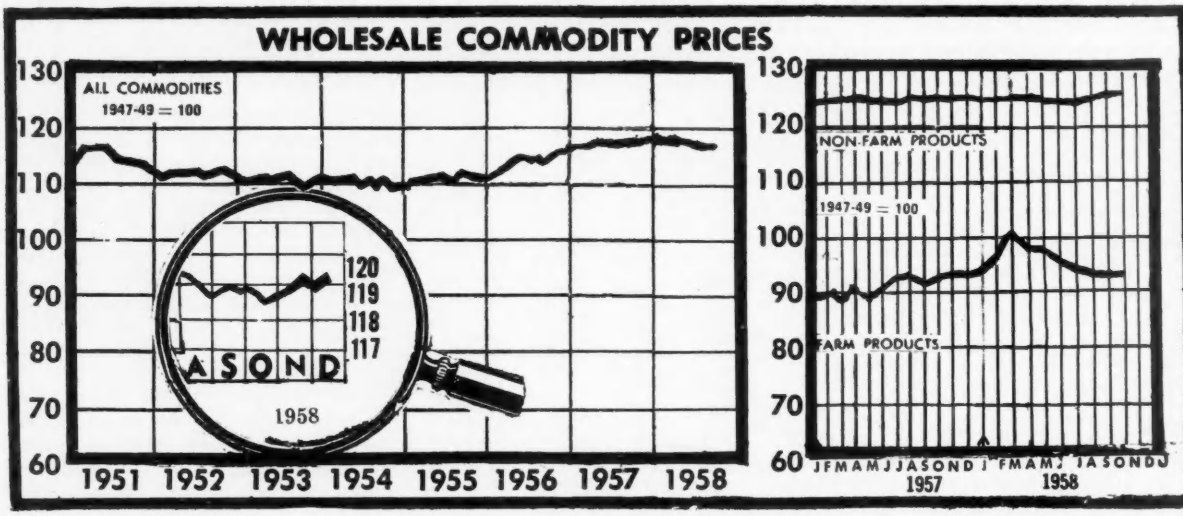
Trend of Commodities

SPOT MARKETS—Sensitive commodities continued to decline in the two weeks ending December 18, although prices stabilized near the end of the period. The BLS daily index of 22 leading commodities lost 0.9% during the fortnight with all the major components of the index joining in the decline. Raw industrial materials were off 0.8% as the result of lower quotations for burlap, lead scrap, rubber, steel scrap, tallow and wool tops. Copper scrap and resin did better.

The recent setback in leading commodities indicates that businessmen are still pursuing a rather cautious policy with regard to inventory accumulation. The rank and file of commodities, however, especially manufactured goods, continue to inch upward, continuing the creeping advance that has been going on for some months.

FUTURES MARKETS—A preponderance of futures moved downward in the two weeks ending December 18, although some commodities were able to buck the trend. Futures under pressure included grains, lard, cotton and hides. Improvement was shown by metals, cocoa and coffee.

Wheat futures were lower in the period under review, with the May option giving up 4¼ cents, to close at 192½, only 1½ cents above the low for the life of the contract. Entries into the loan have slowed down considerably, according to the Government statistics and it appears that current cash prices will have to decline further before farmers will increase their impounding. A large amount of wheat is not eligible for the loan and this could be a depressing factor if demand proves insufficient to absorb it.



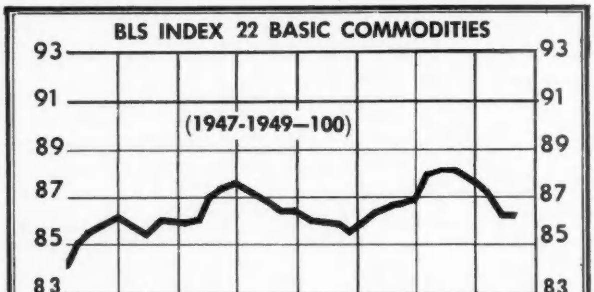
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Dec. 16	119.1	119.0	118.5	60.2
Farm Products	Dec. 16	90.7	91.2	92.6	51.0
Non-Farm Products	Dec. 16	127.1	126.9	126.1	67.0
22 Sensitive Commodities	Dec. 18	86.2	87.0	84.8	53.0
9 Foods	Dec. 18	81.8	82.6	85.0	46.5
13 Raw Ind'l. Materials	Dec. 18	89.4	90.1	84.4	58.3
5 Metals	Dec. 18	97.1	97.7	87.5	54.6
4 Textiles	Dec. 18	77.3	77.7	78.7	56.3

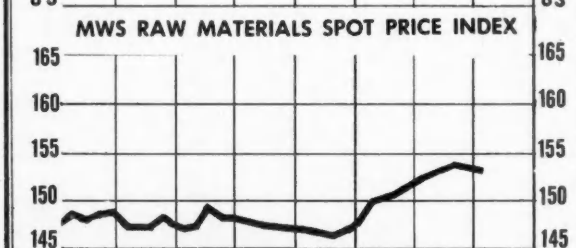
MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

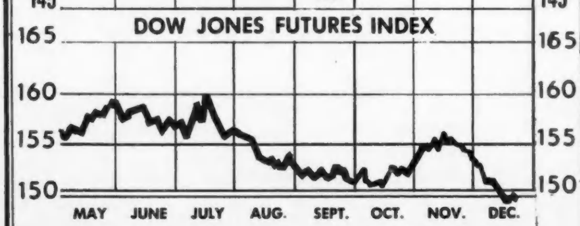
	1958	1957	1953	1951	1945	1941
High of Year	154.1	166.3	162.2	215.4	98.9	85.7
Low of Year	146.5	149.5	147.9	176.4	96.7	74.3
Close of Year		150.0	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1958	1957	1953	1951	1945	1941
High of Year	159.0	163.4	166.5	214.5	106.4	84.6
Low of Year	148.6	153.8	166.8	189.4	105.9	84.1
Close of Year		156.5	147.9	176.4	96.7	74.3







Why Union Pacific Railroad Advertises for Passenger Business

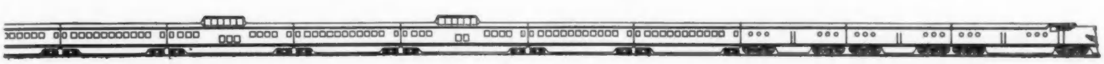
In face of all that has been said and written about railroads getting out of the passenger business, doesn't it seem strange that Union Pacific should be so energetic and enthusiastic about promoting passenger business on its Streamliners and Domeliners?

Believing that if you create a better product people will buy it, Union Pacific, in the last few years, has invested over $31,000,000 in new, modern passenger equipment. This has included dome lounges, dome diners and dome coaches . . . latest design Pullmans . . . and the most comfortable coaches ever built. Today, Union Pacific operates the finest, most luxurious transportation between Chicago and the Pacific Coast! ***This is why Union Pacific advertises its passenger trains!***

But what about planes? Aren't the airlines putting the trains out of business? No, Virginia, as long as there are people who prefer the finer things of life there'll always be those who will choose to ride on Union Pacific trains! Not all people believe that you "have to break your neck" to get there. There are those who firmly believe that travel was meant to be enjoyed—not merely endured. And those who can afford to travel by train see no reason for paying more for something less! ***This is why Union Pacific advertises its Passenger trains!***

Then there's the matter of special family fares. Union Pacific encourages families to travel together. For four days of every week—Mondays through Thursdays—fares are made so attractive to husband and wife, or one or both parents and their children, that trips started on those days become unbelievably low in cost. These special rates apply to both coach and Pullman accommodations. Children are thrilled to ride on the train (and who isn't?) and because of their welcomeness aboard, they never fail to have a good time. Since travel "togetherness" can be such a thrilling experience, Union Pacific extends a special welcome to families traveling together. ***This is another reason why Union Pacific advertises its passenger trains!***

Does all this effort to tell the Union Pacific story of its fine trains really pay off? We hope so. And we believe it does. The nicest letters are written to us by people who have ridden our trains recently and they are very enthusiastic about their trip experiences. We know you will also find Union Pacific Domeliners and Streamliners the finest and most luxurious means of travel in America today, and we want everyone to know about it! ***That's why we advertise so enthusiastically!***



Passengers and Shippers Agree – Travel is Best on U.P.

UNION PACIFIC RAILROAD

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Dresser Industries, Inc.

"Dresser Industries like most companies must have been adversely affected during the business recession but are operations improving now? I am particularly interesting in receiving recent earnings data and the outlook over coming months."

C. F., Winter Haven, Florida

Dresser Industries, Inc. is a leading manufacturer of machinery and equipment and supplier of technical services for the oil, gas, chemical and electronic industries.

For the fourth fiscal quarter ended October 31, 1958, Dresser reported an 18% decrease in sales below the level of 1957. However, according to the company's chief executives, with the country's economy now in a definite recovery state this should be reflected in an increased tempo of activity within the oil and gas industries and this should benefit Dresser.

For the 12 months ended October 31, 1958, Dresser set net earnings after taxes at $9,882,000 on sales of $225,264,000. This compares with 1957 net earnings of $20,620,000, on sales of $274,429,000. Based upon shares outstanding as of October 31, 1958, net earnings per share were $2.14 by comparison with $4.47 for 1957.

The company states that the "decline in sales from 1957 was occasioned by the general business recession which curtailed petroleum demand and thus retarded the oil industry growth with the consequent and rather sharp impact on oil industry earnings." With respect to the quarter just completed, the company pointed out that although it showed some modest improvement over the previous two quarters, it fell below the comparable 1957 period by 27% in sales and 60% in net earnings. However, since the comparable 1957 period represented an all-time high in sales for Dresser, the fourth quarter figures for 1957 and 1958 make for a somewhat distorted comparison.

In view of the company's strong liquid position and improved earnings outlook for 1959 as a whole, the company has decided to continue the 50 cent quarterly dividend, which was raised to that level during the first quarter of 1958. The latest dividend was paid on December 15.

The long range expansion expected for the gas and oil industries should benefit Dresser.

Black & Decker

"I understand that Black & Decker is prominent in the "do-it-yourself" field and am interested in recent earning trend and prospects for the company."

M. C., Clearwater, Florida

Black & Decker is a leading manufacturer of portable electric tools used mainly for maintenance purposes and the "do-it-yourself" trend of individuals plus broadening domestic and foreign operations have been helpful factors.

Consolidated net sales for the fiscal year ended September 30, 1958, were $43,527,002. Compared to the record sales of $52,398,544 reported for fiscal 1957, this figure represents a 16.9% decrease from the previous year. In line with this decrease, the company's consolidated net earnings from operations for the year were $3,262,134, or $3.16 per share on the 1,031,964 shares now outstanding. This compares with consolidated net earnings of $5,551,719 or $5.40 per share from the previous operations, on the 1,028,928 shares outstanding as of September 30, 1957. Included in the 1957 net earnings was a non-recurring item of $205,965, or 20 cents per share.

Cash dividends paid during the fiscal year totalled $1.55 per share as compared with $1.40 per share paid during the preceding year.

During the past year, the company continued to place increasing emphasis on the development of new and improved electrical tool products. Nine entirely new tools and four major attachments were developed and introduced through the company's Industrial, Automotive and Hardware Product divisions.

The company's position in world markets has been augmented during the year by the formation of new sales and service subsidiary companies in Rotterdam, Netherlands; Dusseldorf, Germany; and Auckland, New Zealand, and the establishment of warehousing operations in Mexico City, Mexico and Capetown, South Africa.

As a result, the company appears to be in an excellent posi-

(Please turn to page 384)

1959 Outlook for Leading Industries

(Continued from page 335)

of a real boom.

STEEL — The steel industry is coming out of its most serious recession in the last 20 years a stronger and more secure industry than ever before. A decade of capital improvements paid off in 1958 when the major companies were able to demonstrate that their break-even points were much lower than was generally believed.

Since the recession's low point, in April, steel company earnings have been improving steadily and it is now a possibility that some companies will report record earnings in 1959 even if production remains below full capacity. This view is bolstered by the fact that U. S. Steel's 1959 earnings are now estimated at around $7.50 per share at an average production rate of 75 percent of capacity. This figure is larger than Steel's record 1957 earnings.

Despite their impressive performance however, it is important to note that most steel companies are selling at lofty price-earnings multiples that may adequately discount the improved position of the industry. Moreover, the companies will not be untroubled in 1959.

Demand from the auto industry is still spotty, although there are definite signs of improvement—and the industry may suffer a siege of labor difficulties in the spring. Ordinarily the industry's negotiations might expect to get by relatively unscathed in view of the auto settlement in 1958, but John L. Lewis' recent success in wresting his best contract from the coal operators is bound to effect steel industry bargaining. For there is an historic and jealously guarded differential between steel and coal industry wage rates. Accordingly, investors should treat the highly priced steel shares with extreme caution despite their much improved investment status.

CHEMICALS—Chemical industry operation will almost certainly improve at least in the first half of 1959, and many companies should score sharp earnings recoveries. However, the upswing will be a cyclical one and will solve none of the industry's longer term problems.

Principal among these is the chronic threat of oversupply in view of the exceptionally high level of capacity extant in the industry today. Even caprolactum, the basic nylon ingredient will be in oversupply by the end of the year, although there will be near term shortages.

As an offset to overcapacity, it must be pointed out that most companies have made excellent strides in reducing costs through the introduction of automatic equipment. Consequently, even with overcapacity hanging overhead, profits should advance with sales. In this connection, it is interesting to note that the low labor factor in chemical operations is an important earnings determinant. In effect the cost of operating at 75% or 80% of capacity is not significantly greater than 50% operations. Profit margins, therefore, widen quickly once production is stepped up.

For investors, the important question is whether the industry will continue to grow at a rate in excess of the rest of the economy. For it has been this pattern in the past that has justified the "growth stock" label for many companies in the industry. 1959 should help provide the answer to this problem. If earnings can match previous growth levels despite excess capacity the answer is clear. If not, a downward revision in the industry's investment status from a growth standpoint may be in the offing.

CONSTRUCTION—This star performer during 1958 will continue to be a powerful business stimulant in 1959. New home building (unless threatened by higher interest rates) is likely to better last year's levels, while capital spending expectations by industry indicate that the year-long decline in plant construction may be over. In addition state and local outlays for public construction are scheduled to rise again in 1959, and the giant 41,000 mile roadbuilding program should go into full swing—unless efforts to reduce government spending raises a roadblock.

The profits picture within the industry will remain mixed however. Plywood and building materials producers appear headed into a profitable year, although overcapacity is rearing its head. On the other hand the roadbuilding equipment makers will find the field still highly competitive, although the better situated companies should improve their earnings slightly as the year progresses.

But despite the mixed profit picture, construction activity will remain high, and this is good news for the rest of the economy, since building remains one of our major economic props.

ELECTRICAL EQUIPMENT — Sales of electrical equipment should continue their exceptional growth in 1959, but some change in product mix will become observable as the year progresses.

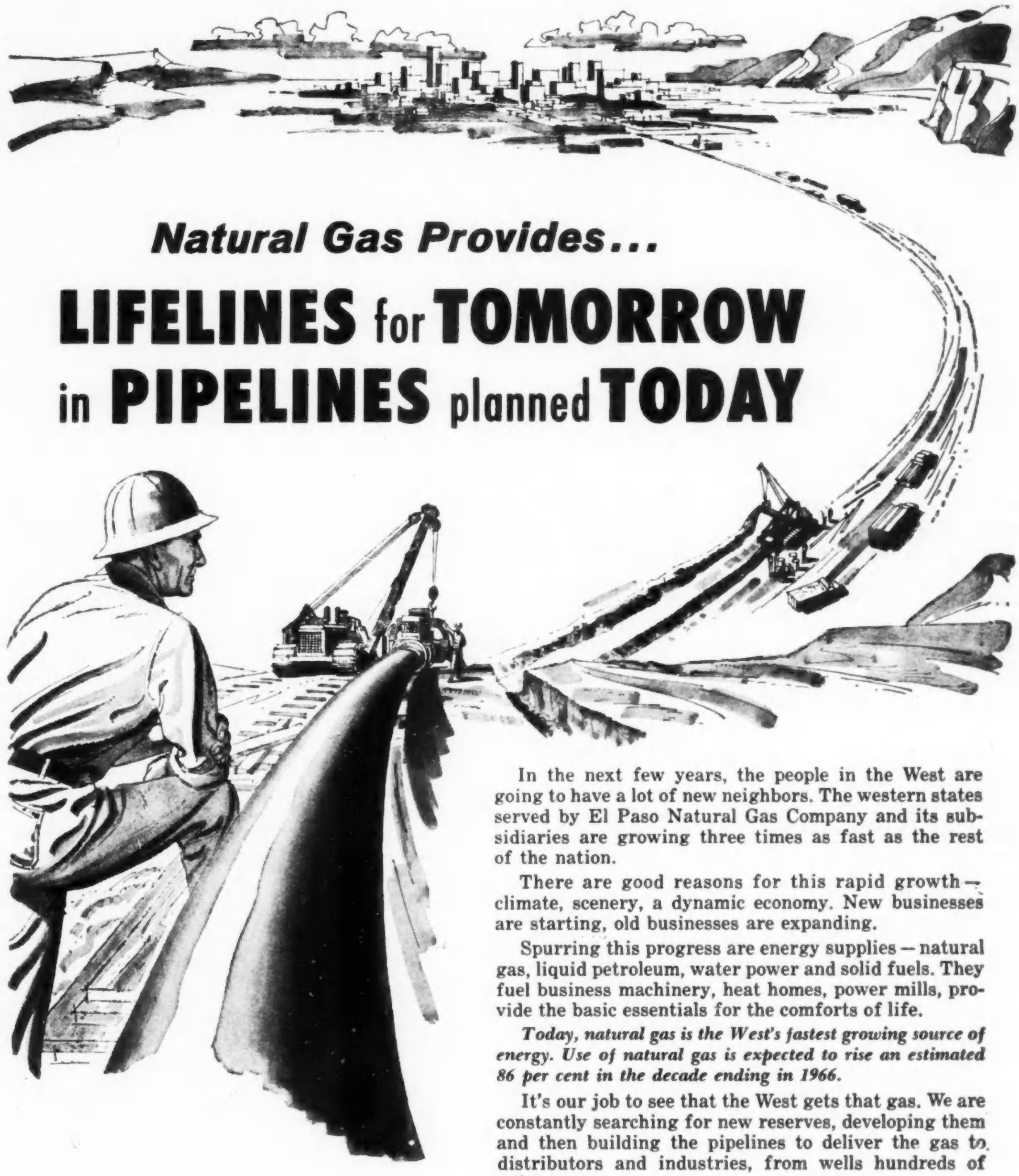
Electronic components and military equipment will undoubtedly reach new record levels, and industrial equipment should rebound from the 1958 decline. On the other hand shipments of heavy generating equipment to electric utilities will slacken in the year ahead, and there is growing evidence of a price-war in smaller generating and distributing equipment.

In general, however, the industry appears strong enough to withstand the price cutting, and profits should improve over last year's results. Moreover, orders for heavy equipment for delivery in 1961 and 1962 have already begun to rise, indicating that the slump in this area will be a brief one.

Also brightening the prospects for the industry is the decidely better outlook for home appliance sales and the expected pickup in television set output. From late 1957 until well into 1958 manufacturers cut back production of these items drastically, so that the dealer inventory position is now the best in several years. So far inventory rebuilding has not yet begun, but since mid-1958 retail sales have been on the upgrade indicating that production will be stepped up if the better sales continue.

GENERAL MACHINERY—1958 was a dismal year for the tool and industrial machinery manufacturers. New orders fell to the lowest levels in a decade and overall operations were the worst since the early thirties.

(Please turn to page 372)



Natural Gas Provides...

LIFELINES for TOMORROW in PIPELINES planned TODAY

In the next few years, the people in the West are going to have a lot of new neighbors. The western states served by El Paso Natural Gas Company and its subsidiaries are growing three times as fast as the rest of the nation.

There are good reasons for this rapid growth — climate, scenery, a dynamic economy. New businesses are starting, old businesses are expanding.

Spurring this progress are energy supplies — natural gas, liquid petroleum, water power and solid fuels. They fuel business machinery, heat homes, power mills, provide the basic essentials for the comforts of life.

Today, natural gas is the West's fastest growing source of energy. Use of natural gas is expected to rise an estimated 86 per cent in the decade ending in 1966.

It's our job to see that the West gets that gas. We are constantly searching for new reserves, developing them and then building the pipelines to deliver the gas to distributors and industries, from wells hundreds of miles away.

This effort pays off in the assurance that years in the future — even with demand growing at a record pace — the West will have the *energy supplies* essential for continued growth.

EL PASO NATURAL GAS COMPANY

Common Stock listed on the New York Stock Exchange, Midwest Stock Exchange and Pacific Coast Stock Exchange.

Registrars: *New York,* City Bank Farmers Trust Company; *Chicago,* The First National Bank of Chicago.

Transfer Agents: *New York,* The Chase Manhattan Bank; *Chicago,* Continental Illinois National Bank and Trust Company of Chicago.

For the year ahead there is some encouragement, however. The slide in capital spending will be arrested and a slight upturn may even materialize. As a matter of fact, orders for machine tools were on the upgrade in the final months of 1958, although the level was far below the previous year. Orders already on the books indicate that 1959 cannot possibly be a banner year, no matter what happens, but by mid-year orders should pick up substantially. A big reason for this is the auto industry's need for style changes in 1961. But the tool makers may get an earlier bonus if the auto makers decide early in 1959 that they must tool up for small model cars in 1960.

Spotty earnings improvements may lead to some speculative activity in these shares, but in general their investment quality will remain low in the year ahead.

Three Investment Selections

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company's shipments go to the automobile industry, 25% to container producers in the form of tinplate, and the remaining 30% to construction, appliance and machinery makers. National's products are primarily lighter steels. The company has considered diversifying into heavier items like plates, structural steel and pipe, but these plans have been shelved, temporarily at least.

To meet anticipated greater demand, National has increased its capacity to 6.8 million tons equal to 5% of the industry's total by large capital outlays. In 1958 the company concluded a giant half billion dollar modernization and expansion program that started in 1952. Outlays in 1958 dropped to about $35 million from $85 million in 1957 and approximately $35 million will be spent in 1959. By far the greatest part of these expenditures have come from internally generated funds. About $70 million was obtained through the issuauce of long-term debt.

Alert Management

National is modernizing on the personnel front too. Under the chairmanship of George M. Humphrey, former U. S. Secretary of the Treasury in the Eisenhower Administration, the company is pursuing a youth movement. Bright, younger men are being brought in from the outside and others promoted from within the organization.

Basically, the company is divided into two segments. A bit more than half of total ingot capacity is located at the Great Lakes plant in the Detroit area. As a major supplier of cold rolled sheet, it is strategically situated to serve the automobile industry. The Weirton Steel division, accounting for somewhat under half of capacity, located in West Virginia, produces tinplate, galvanized sheets and rolled strip for the container, construction and appliance industries. National is highly integrated. Reserves of metallurgical coal and iron ore are among the best in the steel industry.

In an industry noted for sharp cyclical movements, National's record is quite satisfactory. Over the past decade, earnings have held relatively stable, averaging around $6 a share, and did not sink below $4. Moreover, because of the company's heavy depreciation allowances, there has been a tendency to understate its earning power. Profit margins, among the best in the industry in the past, have narrowed somewhat in recent years, but are expected to widen again as a result of efficiencies of new equipment.

The impact of the business recession and particularly the poor auto year hit National hard in the first half of 1958. In fact, its Great Lakes division was closed for a month due to lack of orders. Operations in the first half averaged about 55% of capacity. Earnings plummeted to $1.39 a share from $3.52 the year before.

Sharp improvement occurred in the third quarter as earnings rose to $1.47 a share, larger than the $1.08 of a year earlier and more than total earnings in the entire first half of 1958. The company operated at 69% of capacity versus an industry-wide rate of 60%. Recovery probably took place mainly in tinplate and galvanized sheets because of upturns in the appliance and construction industries as well as increased demand for cans to pack the 1958 food crop. Advance buying to beat the November 1st tinplate price rise was probably another important factor. In the initial nine months of 1958, sales dropped to $381 million from $493 million the year before. Earnings declined to $2.86 a share from $4.60.

Atlhough obstructed by numerous strikes, the automobile industry is beginning to pick up speed in the fourth quarter as new models roll off assembly lines. Results in the last quarter will probably reflect a higher rate of shipments to the auto industry. Full year 1958 earnings are estimated to reach about $4.50 a share versus $6.13 in 1957. National's fortunes in 1959 will depend primarily on consumer acceptance of new passenger cars. If current projections of 5.5 to 6 million cars produced come true, National's earnings could easily return to the $6 to $7 level, especially in view of increased efficiencies of its modern plant at higher operating rates. At its recent price of 75, National sells at 16.7 times estimated 1958 earnings and yields 4% on the indicated annual $3 dividend. END

Companies Showing Better Than Average Improvement

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entail a dividend increase of 5 cents, to a total of 50 cents quarterly on the present stock. The shares are high in relation to their past history, but the increasingly important electronics activities appear to justify the current level.

Minute Maid has enjoyed a sharp earnings recovery this year, largely due to the Florida freeze of last winter, which brought on severe orange shortages but somehow managed to treat Minute Maid kindly. Similar conditions this year could again be conducive to a continuance of these circumstances and earnings ought to compare favorably next year. Naturally, predictability in such an industry is far from certain, but with the company having dropped its unprofitable Snow Crop frozen food line and enjoying continued firm prices for juice concentrate, the speculative possibilities are good

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that earnings will hold up.

Schenley Industries as noted in this magazine's October 11, 1958 issue, probably stands to gain more than any other distiller from the recently enacted legislation extending the tax-free bonding period of whiskey from 8 to 20 years. Briefly, this means that distillers will no longer be forced to take whiskey out of government bond after eight years and pay the extraordinarily heavy excise tax ($10.50 per gallon), regardless of whether or not a market exists. In addition, Schenley is strong in the straight whiskeys becoming increasingly popular, its major brands including I.W. Harper, J.W. Dant, Old Charter, Samovar Vodka, and Roma and Cresta Blanca wines. Schenley's diversification efforts center in its Schen-Labs Pharmaceuticals. Primary appeal in the shares, which had a rather sensational market performance in 1958, lies in the speculation that the new tax bill will prove especially significant to Schenley earnings and in the high net working capital per share, nearly $40. The company recently declared a 20% stock dividend, to be payable in four 5% distributions, the first paid in Dec. 1958 and other record dates being, April and July 15, 1959.

Spiegel, Inc. once operated over 150 department stores and as recently as 1954, was still engaged in this form of retailing. Since then, however, the stores were disposed of and a source of severe earnings drains was eliminated. The earnings level rebounded almost immediately to a level in excess of $2 and for 1958, an estimate of $3 per share is entirely within reason. Spiegel's operations are now concentrated on the mail-order business, emphasizing soft goods, especially the style factor, so important in women's clothes. Spiegel incorporated two retailing concepts into its operation which have paid off handsomely. The company was the first to offer credit sales by mail and under its Budget Power Plan, the customer's life is insured to the extent of the balance owed. Credit sales now account for about two-thirds of total sales. The other innovation for Spiegel was the opening of catalog shopping units, which are continuously being started up in shopping centers and other suitable locations. These shops eliminate to a certain degree the onus of the impersonal aspect of ordering from a catalog. Although concentrated in the Midwest, Spiegel is expanding in other sections of the country. A long term $25 million loan agreement with the Prudential was arranged in 1957 which provided the funds necessary to finance receivables and establish a modern accounting system. Operating costs have been reduced considerably by installation of an I.B.M. data-processing system, which has enabled faster customer account servicing and tighter inventory control. Selling slightly in excess of seven times estimated 1958 earnings, these shares have attraction for income and appreciation, based on a possible increased dividend should present earnings improvement continue.

Twentieth Century Fox, while subject to the influences of box-office response to feature films, has added some interesting, non-film diversification factors to its picture. Of immediate significance is the oil drilling lease with Universal Consolidated Oil covering 280 acres of the Beverly Hills studio property. After Universal recovers all its drilling and production costs, the two companies will share oil revenues about 50-50. In 1957, such an arrangement would have meant about $0.50 per share to Twentieth Century. While the eventual details are yet to be decided upon, the company also plans an ambitious real estate development on some of its other studio properties. Whether the land is sold outright to a developer or some form of joint venture under a leasing agreement is decided upon, the potential revenues to Twentieth Century are considerable, although not subject to accurate estimate at this juncture. 20th Century is expanding its TV production and President Skouras predicts it will be as important in this field as in motion pictures. For the nearer future, the shares are reasonably priced in view of estimated 1958 earnings of $3.40 per share. The apparent revival in the public's interest in movie-going has aided earnings, which provide a comfortable cushion for the $1.60 dividend. END

Natural Gas Companies

(Continued from page 350)

plant provide the basis for an improved longer term outlook for this quality company. Columbia has formed a new wholly owned subsidiary, Columbia-Gulf Transmission Company, which will own and operate the pipeline facilities of Gulf Interstate. The acquisition, if finally approved by regulatory authorities and stockholders, will enable Columbia to transport upward of 30% of its annual requirements from the southwest through its own facilities and thereby provide it with valuable bargaining power toward its other suppliers. The corporate realignment is designed to reduce the overlapping regulatory problems that have caused delays in obtaining the necessary rate relief in recent years. Construction expenditures of the system were sharply reduced this year because of uncertainties deriving from the Memphis decision and an expanded program is planned for 1959. For the latest twelve months Columbia reported earnings of $1.53 per share. On the basis of shares currently outstanding little change is expected for the calendar year 1958.

Consolidated Natural Gas. As a result of improved industrial activity in recent months 1958 earnings for Consolidated Natural Gas should be in the neighborhood of $3.40 compared with $3.39 last year. Practically all of the company's subsidiaries are seeking rate increases from the cognizant regulatory authority which could provide the basis for some earnings improvement next year. Several weeks ago the company raised its annual dividend from $2 to $2.10, thereby maintaining its record of yearly increases. Construction during the past year was lower than normal, also as a result of complications fostered by the Memphis decision and an expanded program is likely in 1959.

El Paso Natural Gas. One of the warmest heating seasons on record plus the slow development of the Pacific Northwest market has reduced earnings prospects for 1958 to about $1.90 per share

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from $2.39 last year. El Paso had one of the greatest exposures to the Memphis decision and also has been harrassed in its rate cases by representatives of the State of California. Reversal of the Memphis case has protected the basic earning power of the company. In view of the large unsatisfied market in California and the prospect for improvement in the Pacific Northwest over the coming several years earnings could advance materially from current levels. Hearings on the company's proposal to acquire the facilities of Pacific Northwest Pipeline are continuing before the Federal Power Commission. Retention of these properties is highly desirable for the company.

Pacific Northwest is currently importing over 300,000 mcf of natural gas per day from Canada and is actively seeking a larger supply. In a recent preliminary report the Royal Commission on Energy (Borden Commission) suggested that additional quantities would be available for export, although at higher prices. Because of the differential between natural gas and other fuels in the company's major markets, the higher price should be of secondary importance.

Lone Star Gas. This combination distributor, pipeline company and producer operates primarily in Oklahoma and Texas and for the most part is not subject to federal regulation. Earnings for 1958 are estimated at about $2.35 or about the same as in the previous year. The lack of improvement reflects primarily the lower level of operations in the petroleum industry during the past year. For 1959 some earnings improvement is likely as a result of additional sales to be made to Peoples Gas Light & Coke System, and a $750,000 rate increase obtained in the City of Dallas in September 1958. An important portion of this company's revenues is derived from production and sales of petroleum products as well as natural gas.

Mississippi River Fuel. As a result of a diversification program Mississippi now derives about half of its income from natural gas sales, (of which about 40% is from sales to industrial customers), and the other half from a chemical plant which manufactures ammonia products and fertilizers, oil and gas production and the mining and sale of drilling mud. Despite the relatively poor year recorded by the petroleum industry the management of Mississippi has estimated that earnings for 1958 will be about $2 per share or equal to 1957 results, Over the coming year the company has announced plans for a new $8 million pipeline to increase the supply available for the major market of the City of St. Louis. The new line would be constructed as a subsidiary of Mississippi and stock is to be sold to the public.

National Fuel Gas. Rate increases aggregating almost $3 million have contributed to an estimate of $1.50 for 1958, compared with $1.39 last year. Growth of this distributing system, while moderate, has been steady. Over the coming several years it is expected that about 12,000 customers annually will be added to the system's lines which should enable the company to report continued modest earnings growth. A large system of underground storage fields permits the company to purchase gas at a high load factor which in turn aids in controlling costs. Dividend increases have been authorized in recent years as earnings improvement justified them.

Northern Natural Gas. Expansion of the Northern Natural Gas System has also been delayed by the competitive application of another pipeline. As noted above the FPC dismissed all of the earlier proceedings and Northern has again indicated its intention to sell gas in a number of new communities. Among the major markets remaining within economic distance of the company's transmission line are the cities of Superior and Duluth, Wisconsin. It is understood that the management is conducting conferences with the opposing pipeline seeking an equitable solution. Northern is also proposing to sell 50 million cubic feet per day to Northern Illinois Gas Company at Dubuque, Iowa. If approved this sale will be relatively beneficial to the overall Northern operation as it will permit a material improvement in load factor.

Including revenues collected under bond, Northern is expected

to report $1.70 for 1958. Further rate increases of $8 million annually went into effect pending adjudication by the Federal Power Commission in November 1958.

Oklahoma Natural Gas. A distributing company operating wholly within the State of Oklahoma, it has a relatively erratic past earnings record reflecting the importance of oil and gas production in the area. In addition, the company operates oil and gas wells. Until recently the greater proportion of its gas supplies were purchased under short term contracts which were subject to price fluctuation. Over the past several years, however, a number of longer term contracts have been negotiated which have tended to equalize the cost of gas. A fuel clause was added to the company's rates several years ago which also mitigated the earlier fluctuations. At the present time the company is authorized to earn a rate of return of 6¼% on its utility properties. Of total revenues of $44 million about $5 million is derived from oil and gasoline plant product sales. Growth of this company has been modest in recent years and no important change is expected in the near future.

Panhandle Eastern Pipe Line. As the foremost advocate of fair field price, the company has been seeking recognition of earnings for its own reserves since 1954. With the Memphis decision, and its threat to the company, out of the way it is expected that the management will once again prosecute its quest for "commodity value" for owned reserves. Earnings for 1958 are estimated at about $2.75 including a sizable amount collected under bond and representing fair field price. In September 1958 the company placed in effect a new rate increase designed to add $12 million a year in revenues and based on a 7% rate of return.

As in the past, Panhandle has elements of long term strength, including its reserve position and potential unproven gas reserves underlying gas producing areas in the Panhandle field. It is also the lowest cost supplier in most of its market area. The recently authorized abandonment of a sizable sale to the American Natural system could enable the company to sell this gas to other customers at higher prices.

A subsidiary, Trunkline Gas Company has proposed construction of an $81.5 million line to provide up to 135 million cubic feet daily to Consumers Power Company. Longer term earnings projections for this system cannot be made with any accuracy because of the many legal problems facing the company.

People Gas Light & Coke Company. The Peoples system is expected to report earnings of $2.90 for 1958 excluding about 30¢ to 50¢ currently being requested for retail sales in the City of Chicago. Both of the major pipeline subsidiaries also are seeking rate increases. Because of difficulties relating to the Memphis decision, the company in May 1958 settled an $11 million rate request with its customers after obtaining increases of about $5 million.

Gas supply continues to be the major problem facing the Peoples system although sufficient reserves have been acquired in recent months to permit expansion of 107 million cubic feet per day for the company's major subsidiary, Natural Gas Pipeline Company of America. Application is also pending to increase this amount to 185 million cubic feet. After several years of litigation Peoples and Midwestern Gas Transmission Company, a subsidiary of Tennessee Gas Transmission, proposed a resolution of the long standing competitive applications of the two companies under which Midwestern would provide up to 360 million cubic feet per day in the general area now serviced by Peoples.

Southern Natural Gas. Southern also compromised its rate problems under the Memphis decision obtaining increases from its customers equivalent to a 6¼% return in exchange for expanding its system at a cost of almost $100 million. The rate increases become effective, if accepted by the Federal Power Commission, on conclusion of the construction in mid-1959. The increase will add about $18 million to their annual revenues.

Approximately 25% of total gas sales is made directly to industrial customers and is not subject to Federal Power Commission jurisdiction. During the past year the industrial recession lim-

ited improvement in these sales and earnings for 1958 are expected to be about $1.90 excluding about 47¢ from the sale of 100,000 shares of Air Reduction Corporation. The remaining 200,000 shares of this issue are to be sold over the coming two years in equal installments.

Over the longer term earnings should again resume their upward trend because of the rate increases obtained and the prospects for development of earnings from the subsidiary Offshore Company which specializes in drilling barges. The company in the past has also indicated an interest in becoming an integrated oil and gas operation and this plan may still be under consideration.

Tennessee Gas Transmission. Of all the regulated natural gas companies Tennessee has the largest non-regulated operation. Almost 35% of its billion dollars of assets is devoted to oil and gas production, marketing, refining and related enterprises. Approximately the same proportion of earnings is derived from these sources. In recent years earnings growth has been well above average and prospects for a continuation appear quite favorable. The management is aggressive and stockholder minded, which combines to add to the attraction of the issue.

Through its subsidiary, Midwestern Gas Transmission Company, it had been proposed to import gas from Canada to the upper Mississippi Valley of the United States until the Borden Commission suggested a re-evaluation of the contract. Even though the Federal Power Commission also dismissed the company's proposal to bring gas from Canada it invited a new application and Midwestern still stands as the most likely candidate to purchase gas from Trans-Canada Pipeline and sell it in the United States.

Before adjustment for possible conversions, Tennessee is expected to report earnings of about $1.90 to $2.00 per share for 1958. A portion of the $1.40 dividend is expected to be considered a return of capital for tax purposes this year.

Texas Eastern Transmission Company. Now operating as three separate divisions, Texas Eastern consists of a natural gas system, which owns and operates a pipeline extending from the Mexican border to New York and connects to New England through an affiliate, Algonquin Gas Transmission, and has a small production subsidiary called Texas Eastern Production Co.; an oil pipe line from east Texas to Ohio; and LaGloria Oil & Gas Co., an oil and gas producer and refiner in east Texas. The "Little Big Inch" oil pipe line is still operating on a limited basis and is not expected to contribute to earnings before 1959. Good weather in the early part of this year, however, should enable the company to report close to $2.35 in 1958. Earnings in 1957 were $2.52 a share.

A major expansion of the pipe line and construction of a major storage field in eastern Pennsylvania will require expenditures of about $85 million to $100 million in 1959. Despite the necessity of selling common stock to finance this program some further improvement in earnings is anticipated next year.

Texas Gas Transmission Company. This relatively small but aggressive company sells primarily in the industrial midwest. In part the recent recession contributed in a decline in per share earnings. Thus, for the twelve months ended September, 1958 earnings were $1.98 compared with $2.16 a year earlier. For the calendar year 1958 earnings are estimated at $2 per share. A small production subsidiary has also contributed to the company's earnings in recent years and for 1958 will provide about 35¢ to 40¢ to per share. Modest drilling and exploration expenditures are budgeted.

Recently the company announced a major expansion of its pipeline in 1959 and indicated that it would also build a transportation line for a distributor in the midwest. While the size and scope of this expansion have not been fully outlined, it should add materially to the company's earnings potential.

Transcontinental Gas Pipe Line. This company provides service to the New York-New Jersey-Philadelphia metropolitan areas and has expanded its capacity each year since its initial construction in 1951. In conjunction with Texas Eastern Transmission it operates underground storage fields in eastern Pennsylvania for ultimate use of its utility customers. Contrary to most of the other pipelines it has not diversified into related fields but has concentrated on bringing gas to the growing eastern market. The company is currently embarked on $150 million expansion program which will bring its capacity to 1,281,000 mcf by the end of 1959, or a 34% increase.

All of the company's customers have agreed to a rate increase of 2¢ per mcf to become effective on completion of the current construction. At the present time earnings for 1958 are estimated at about $1.40 and a moderate increase is foreseen for 1959. Assuming earnings reach this level a dividend increase is possible.

United Gas Corporation. The largest integrated gas company in the United States, United engages in all phases of the oil and gas business and through its subsidiary, Duval Sulphur & Potash, operates in the potash and copper industries. United was the target in the Memphis case and stood to lose over $20 million a year in revenues. At the present time the company has a number of rate increases still pending before the Federal Power Commission, some dating back to 1956 while the most recent one was filed in the last several months. Approximately 37% of the company's total sales are subject to Federal Power Commission regulations and slightly under 20% to local, municipal and state regulations.

For 1958 earnings are estimated at about $2.50 or at about the

same level as last year. This estimate includes about 50¢ per share of earnings collected under pending rate increases. With the prospect for improving operations in the oil production and refining industries, the outlook for earnings improvement in 1959 is encouraging. END

All is not "Sweetness and Light" in the Cement Industry

(Continued from page 359)

200 per cent, the number of employees was enlarged only 11 per cent to take care of the expansion.

Outlook For Refunds and Higher Depreciation Allowances

Another favorable factor which should be mentioned is the prospect for recovering substantial tax refunds in litigation with the Treasury Department over the proper procedure for calculating depreciation. A Supreme Court decision in favor of the Dragon Cement Company settled numerous suits claiming the right to higher percentage depletion allowances, but thus far representative companies still are endeavoring to reach settlements on claims for refunds dating back to 1951. The Treasury has sought enactment of a measure in Congress reinstating the old method for calculating deductions, but Congress failed to act last year and there is considerable doubt that a new measure will be approved at this time.

In any event, several companies seeking refunds are reasonably confident of recovering refunds for prior years which should prove of considerable financial help this year in proceeding with improvements in facilities aimed at holding down costs. As noted earlier, conditions vary in different sections of the country, so that an appraisal of individual companies must take into account prospective demand in various markets as well as factors such as foreign competition. Prospects for individual companies will be considered in subsequent remarks.

Because of heavy transportation costs, the effect of imports from abroad is felt only near important Atlantic and Pacific ports. Markets in Chicago, Detroit and Buffalo may feel the effect of shipments from Europe when the new St. Lawrence waterway opens this year. Imports can pose no serious problem, it is believed, especially at major interior markets.

Now let us turn to a brief summary of basic factors of eight representative companies whose stocks are listed on the New York Stock Exchange.

Alpha Portland Cement Company, one of the nation's leading producers with an annual capacity of more than 15 million barrels, has nine plants, principally in Pennsylvania, New York, Ohio, Illinois, Missouri and Alabama. The company is able to compete actively for volume in the more populous areas of the country, where the largest markets are to be found. Output has been increased approximately 25 per cent in the last two years, the latest development in the expansion program having been a modern plant completed last summer in Lime Kiln, Maryland. Expenditures on modernization and expansion in the last year or so have approximated $26 million, it is estimated. Claim for tax refunds, in line with the industry's litigation to recover benefits of more favorable depletion allowances, approximates $6 million. Net profit for the year just ended, reflecting a slow start, is estimated to have dipped to about $2.75 a share from $2.90 in 1957.

General Portland Cement Company, representing a consolidation of several independent companies operating in the Southeast, is considered one of the most efficient organizations in the industry. Seven plants with an estimated capacity of 18.8 million barrels annually are located in Florida, Tennessee and Texas. More favorable weather conditions prevailing in the company's territory account for steadier consumption trends, more stable marketing operations and better labor efficiency. Transportation facilities are considered above average, enabling the company to take advantage of export markets in areas bordering the Gulf of Mexico. With the benefit of additional facilities put into operation last summer and a high rate of demand in Florida, shipments are estimated to have set a new peak for the year just ended. Earnings are estimated to have approximated $4.35 a share, against $3.36 for the previous year. This company continues to report operations without consideration for larger depletion allowances.

Ideal Cement Company, one of the major domestic producers, operates sixteen plants with a capacity of an estimated 28 million barrels, serving markets from southeastern states to the Pacific Northwest. Principal production centers are in Montana, Utah, Colorado, Oklahoma, Arkansas, Texas and Louisiana. Management still is most optimistic on growth potentials in its area and contemplates expansion of some 30 per cent or more in the next few years. Sales have steadily climbed to an estimated total of more than $80 million for 1958, while net profit is believed to have improved modestly over the $4.15 a share of 1957.

Lehigh Portland Cement Company, gradually expanding operations to serve markets outside the North Atlantic states, has become a major supplier of cement along the eastern seaboard and in the north central and northwestern markets. Capacity has been enlarged in recent years to an estimated 31 million barrels, and it is estimated the company now can supply almost 10 per cent of the nation's cement requirements. Principal production sources are in Pennsylvania, New York, Florida, Indiana, Illinois, Iowa and Washington, as well as in states between New York and Florida. Markets served are those principally affected by imports, especially along the eastern seaboard. Opening of the St. Lawrence Seaway presumably will intensify competition in the Middle West. Slower demand early in the year has hampered sales and earnings in the year just ended. Net profit may have approximated $1.90 a share, against $1.70 for the previous year and $2.82 for 1956.

Lone Star Cement Corporation, one of the industry's largest producers, serves most of the eastern half of the country, the Pacific Northwest and Latin America, including Cuba, Argentina, Brazil and Uruguay. Capacity is estimated to have expanded to almost 48 million barrels a year, not considering new construction in South America calculated to add another million barrels. Fifteen domestic plants are concentrated

adjacent to the country's principal consuming markets. Hampered by unfavorable weather conditions which retarded highway projects in several areas, sales sagged in the year just ended and net profit is estimated to have approximated the 1957 showing of $2.03 a share, which does not take into account foreign exchange adjustments. After such adjustments, net may approximate $1.85 a share.

Marquette Cement Manufacturing Company, serving primarily the central part of the country, from Canada to the Gulf of Mexico, has had the benefit of aggressive management in recent years and has expanded capacity to more than 16 million barrels annually, with emphasis on modern facilities. Transportation costs have been effectively controlled through dependence on inland waterways along the Mississippi and Illinois rivers. As a consequence of favorable court rulings on depletion litigation, this company has filed claims for tax refunds for 1951 through 1956 for a total of slightly less than $12 million, taking into account a prospective benefit on 1957 earnings. On indicated sales improvement for 1958 of about 10 per cent, net profit is estimated to have advanced to a new high at about $3.20 a share, against $2.71 for 1957. Prospects are regarded as promising for increased highway activity this year in the company's marketing areas.

Pacific Cement and Aggregates, Inc., leading producer of construction materials on the Pacific Coast, has a cement plant with an indicated capacity of 2.5 million barrels together with gravel and sand production facilities. Reserves of raw materials are regarded as extensive. With the benefit of increased shipments for highway programs and improved prices, earnings are estimated to have recovered significantly in 1958 from the 1957 setback. Net profit may have rebounded to $1.40 a share from $1.03 in 1957 and $1.27 a share in 1956. The recovery reflects in part benefits accruing from adoption of more liberal depletion allowances made possible by favorable court rulings. Price increases becoming effective this January should improve margins in the coming year.

Penn-Dixie Cement Corporation, one of the smallest of the listed companies representing the cement industry, has been concentrating in recent years on enlarging and improving its competitive position. Expenditures in this activity have cost upward of $37 million in the last decade, it is estimated. Plants are located chiefly in the eastern half of the country, with three principal production facilities in Pennsylvania. Two important plants are located in Tennessee, while other supply points are in New York, Michigan, Iowa and Georgia. Capacity has been enlarged to an indicated 17 million barrels. Raw materials are regarded as more than adequate for at least a quarter of a century. Net profit recovered in the year just ended, from depressed conditions of 1957, attributed in large measure to a protracted strike. Earnings are believed to have approximated $3 a share, against $2.14 for 1957. END

Those Costly-Defective and Futile ANTITRUST LAWS

(Continued from page 341)

homa City, Newark, Baton Rouge, Cleveland, District of Columbia, Lexington, Chicago, Baltimore, San Francisco, Pittsburgh, Kansas City, and Louisville.

As must be the situation in all litigation based on conspiracy to violate a law, each proceeding concerned multiple respondents.

The industries and business groups involved in complaints were comprehensive in scope including plumbing supplies, stitchers and staplers, animal feeds, frozen foods, golf clubs, bicycles, soaps, automobiles, paints, dairy products, newspapers, office furniture, electrical appliances, beer, and milk. Signing consent orders pledging discontinuance of activities frowned upon were groups in the following lines: pickles, motor trailers, printing equipment, insurance, motor trucks, linen supply, tobacco, windows, imported nails, liquor, electronic equipment licenses, grave markers, pharmaceuticals, dance studios, electrical appliances, and gasoline.

Some of the situations involved only civil or only criminal actions; a few included both.

The "consent decree" is a device of convenience, and a much-debated one. Its frequent use has made it possible for the Department of Justice to carry on with a shadow of the staff that would be necessary if every proceeding were carried through to ultimate decision in court. *Since* 1935, 72 *per cent of all antitrust cases have been settled by compact between the Government and the cited parties, who then went into court only for the brief formality of obtaining the approving signature of a District Judge.*

But critics say this has a tendency to encourage the Department of Justice to bring weaker charges against business firms then would be the situation if Government lawyers were required to go into court every time, perhaps lower their batting average in the win-lose column. Judges are not infallible in the law, or in the application of logic; if the contrary were true there would be no appellate courts. No need for them. Therefore, management is confronted with the choice between a calculated risk involved in putting up a fight down to the finish line, or accepting what it may regard as the better of two evils: a consent decree.

More Equitable Procedure Needed

No one is satisfied with the system of enforcement which exists today. Harassed business considers it an imposition when put to the cost and trouble of disproving a complaint; competitors sometimes regard it as another weapon to beat down rivals — and complain it is not employed as often as it should; the Department of Justice is under statutory command to do a job for which it is never properly equipped in terms of manpower; the Attorney General has revisions under constant study and has had at least one complete investigation made by an "outside committee" in the past few years; and committees of Congress are seeking ways to improve the system with the idea of making the law effective as a medium of equity rather than wholly a punitive procedure, which many of them regard it to be today.

The Sherman Act and the Clayton Act give victims of antitrust law violations the right to file private suits without awaiting Government assistance. This reflects intent by Congress to en-

Antitrust actions brought by Department of Justice in current fiscal year — July through December

(Continued from page 341)

Electrical appliances	Commercial Electric Co., S&K Appliances, Gross Electric Fixture Co., Woodville Appliances, Lusk Furniture and Appliances, Shea's, Inc., R. H. Macy & Co., Phillips Appliance and Air Conditioning, Superior Refrigeration Sales & Service, Frank Rogers Furniture City, Inc.	Toledo, O.	Stabilizing prices for GE major appliances in Toledo, eliminating competition
Beer	Anheuser-Busch, Inc., American Brewing Co., City Products Corp., Wagner Brewing Co.	Miami, Fla.	Competition lessened by Anheuser-Busch of competitive American Brewing Co. (City Products principal owner; Wagner owner of the physical facilities)
Milk	Fairmont Foods Co.	Grand Rapids, Mich.	Sales of milk below cost and subsidizing distributors for purpose of driving out competition
Auto trucks	White Motor Co.	Cleveland, O.	Allocation of exclusive territories, price fixing elimination of competition in sales to Government
Gasoline	Standard Oil of N. J., Standard Oil (Esso), New York City, Standard Oil of Kentucky	Louisville, Ky.	Agreement between Standard of New Jersey and Standard of Kentucky not to sell in territory allocated to each other, and intercompany sales alleged to be promotive of monopoly

large the base of enforcement by encouraging the public to augment the small antitrust police force of the Government. Management has suffered little, gained little. During the first 50 years of the Sherman Act an average of fewer than 4 such cases were filed each year. And plaintiffs won redress in less than one-third of the cases brought. Most businessmen shy away from a do-it-yourself approach because they know in a majority of cases they are beaten before they start: the litigation will be drawn out over a period of years, and probably would cost many times the amount of judgement likely to be won.

And the Cost!

Judge Victor R. Hansen, the Government's Chief Trust Buster, allocates approximately $100,000 for each major antitrust case pending in his Department. When it is realized that the Government has at its disposal the vast investigative staffs of other agencies as well as its own, and access to official files not available to the general public, it will readily be seen that defense of such a case can be back-breaking to a business.

Although generically the "Antitrust Law," the legal weapon is made up of four parts: Sherman Act, passed in 1890, to break up monopolies; the Clayton Act, to eradicate specific practices which might lead to monopoly; the Robinson-Patman Act which defines and outlaws pricing practices that promote unfair competition; the Wilson Act, which applies the Sherman Act to importers. In parallel actions, the Federal Trade Commission moves to prohibit unfair competition such as fraudulent advertising, but must go to Federal Court to have its orders validated.

New Congress to Reform Practices in 1959

This sound formidable. But the new Congress, largely under the spur of demands from small business organizations is likely to rewrite the law, make it more difficult to circumvent, add encouragement to private civil suits. *For example, when a case has been carried into court and judgment goes for the Government, the facts may be introduced in a treble-damage private suit and need not be subjected to proof again; when a case has ended in a consent decree, the private plaintiff must prove every fact from the beginning (he cannot offer in evidence a transcript of the government's case.) There will be a bill to make such a transcript competent evidence.*

Capitol Hill interest in the 1956 antitrust suit against A.T. & T. has motivated draft of an amendment to cover a situation disclosed therein. The Government sought in that case (later settled by consent decree) to promote competition in the manufacture and sale of telephone equipment by divesting A.T. & T. of its manufacturing subsidiary, Western Electric Co. The settlement permitted A. T. & T. to retain Western Electric. Although the parent company was forced to release some of its patents, the patents involved are in themselves of little practical use to independent manufacturers who are unable to sell their products to A.T. & T. in competition with Western Electric. Much money was spent on both sides in this litigation but the net result was left unchanged. Committee staffs are trying to come up with solutions.

Cited also are the Safeway Stores cases — criminal and civil. The chain was charged with attempting to monopolize the retail grocery business in large areas of Texas and New Mexico. The complaint stated that Safeway had established arbitrary sales quotas for its stores, which amounted to about one-half of all retail grocery business for the areas. To meet these quotas, it was charged, Safeway store managers were ordered to start price wars to destroy their independent competition. More than 70 retailers went out of business in a relatively short time. The criminal case brought fines and suspended jail sentences; the civil action ended in a consent decree. Under prevailing conditions the independent store owners were unable to bring private suits without harnessing themselves with the costs of proving their cases from the beginning — the facts collected by the Government, strong enough to win both cases, weren't available.

The Senate's Small Business Committee, commented:

"The affinity of the Justice Department for consent judgments

is all the more difficult to fathom in view of the Department's knowledge that defendants seek these facile compromises largely in order to frustrate private enforcement attacks."

Judge Hansen blames inadequate budgets for this "affinity." The Assistant Attorney General in charge of antitrust actions, referred to his files to show the number of complaints his office receives jumped from 788 in Fiscal 1952 to 1,056 in Fiscal 1953, and to 1,300 in Fiscal 1957. The staff of lawyers and investigators remained about the same. "Thus," Hansen lamented, "the squeeze on prosecuting resources and the resulting need for increased reliance on private suits."

In cases involving exceptional public interest the Department of Justice files as "friend of the court" to assist a plaintiff. That procedure was followed in the United Fruit case, and in the case of Eagle Lion Studios vs. Loew's et al, now awaiting decision in the Supreme Court.

The Newly Proposed Practices

If Congress finds a way to shorten the period of litigation and ease access to already-proven testimony, a substantial shift from public to private prosecution of antitrust offenders would be brought about. It would be less expensive to all litigants. It would place upon the complainer the burden of proving his case and impose the cost upon him if his charges prove frivolous or unwarranted. It would end the practice of using the facilities of Government to harass a competitor or make "trial runs" of evidence to test its strength. While it might not reduce the number of cases brought by the Department of Justice it would undoubtedly cut into the larger area of activity — the prolonged and costly "investigation," often followed by submission to a consent decree as a way to get out of court and back to the business of making a living. Under such a reform, the Department would refer the complainant to his right to bring treble-damage suits and assist by filing an amicus curiae brief in appropriate instances; in cases involving the public interest, as distinguished from purely private causes, the Government would move to the courts. And having obtained judgment against the malefactor, the evidence accepted in the trial would then be available for the private suit.

Another suggestion that will find its way into a proposed bill deals with injunctive relief. In many instances, individuals being harassed by anticompetitive practices are more anxious to restrain the obnoxious practices than to recover damages for business injuries. But under existing law a businessman finds injunctive relief carries too high a price-tag because he is not allowed to recover attorneys' fees if he prevails. The proposed bill will include court costs in the permissible recovery. *The aim, again, is to get litigation back to the parties concerned, speed decisions, cut costs, and reduce the number of formal investigations which begin, and end, at the Government's convenience — or necessity, as the case may be.*

Judge Thurman Arnold, former head of the Antitrust Division, pointed up the barrier this way: "If anybody comes to me and wants to sue a great corporation under the antitrust laws I tell them, 'Just forget about attorneys' fees for the moment. Have you got $25,000 to put on the line immediately for expenses of depositions and things of that sort?' " Judge Arnold cited one of his current cases in which the official record totals more than 6,000 pages, and where the client has spent more than $100,000 for preparation and trial costs alone.

The Senate Committee has proposed that the American Bar Association undertake a study and make recommendations on how to reduce to reasonable limits the presently prohibitive costs of private antitrust litigation.

The Senators, who take a dim view of the "excessive" use of consent judgments, make this proposal — a potential item of legislation for the new Congress: *"So long as the Justice Department relies heavily on consent judgments to terminate suits short of trial, thus depriving potential private plaintiffs of the benefit of a court record, appropriate means should be devised to make the maximum amount of Government-secured information available to such plaintiffs. Therefore, the Department should be required, as a condition to accepting a consent decree, to file with the court an evidentiary memorandum fully setting forth the evidence upon which it relied in bringing the case. This memorandum is to be public record of the court."*

"High-Ball" the Rails for Defense Consideration

(Continued from page 338)

ment will be a factor too. This movement which is still young and growing has enabled the rails to haul about 6,000 truck trailers a week. It could be more if the I.C.C. rules favorably on certain rates that are pending for this type of traffic.

Passenger service remains a perrenial problem and for most roads has resulted in losses which have drained profits from freight.

Some roads have attacked the problem with rate increases while Chicago, Rock Island is experimenting with first class rate reductions in order to attract passengers.

As yet there is no solution to this quandry which couples the need for profitable or at least break-even passenger service with the overriding requirement of capacity and efficiency for defense needs.

Industry earnings in 1959 will be shaped by many factors. Wages will be up as a result of automatic increases, while deferred spending maintenance on rolling stock has to be made up if only in part. Certain tax shelters available in prior years will be at a minimum while passenger losses will act as a drag too. The best that can be said at this juncture is that the industry should do moderately better than the $605 million that is estimated as earned in 1958. However, individual roads will reflect conditions in their own territories and some should do considerably better than others as we will bring out in our company comments.

Much of the industry's fortunes are geared to a national transportation policy suitable for emergency as well as peace. This would include the right to consolidate weak and strong companies, to stop wasteful and overlapping service and to increase efficiencies for better profit margin. Thus rolling stock at times

idle will be utilized more fully, thus reducing financial requirements, which will be reflected in net income for building the health of our rail transportation system. These measures and others have yet to be explored by those charged with our National planning.

A weak railroad industry cannot be permitted to jeopardize our national defense. If the railroads are to play their part they are going to need a great deal more than what the Transportation Act of 1958 gave them. This is up to the law-makers. Management has gone as far as it can with rusty regulations in trying to improve its lot.

Railroad Securities

Although few institutions added rail shares to their holdings during 1958 and some cleaned out rail equities during the market strength that set in toward the end of the first half—the fact that financially strong roads were earning and continuing to pay their regular dividends, attracted buying from individual investors. Real investor confidence, however, has been limited for many years despite the credit improvement that resulted from financial reorganization during World War II.

There is no question but that it is going to take something more than just financial improvement or a spurt in earnings to bring institutional buyers back into the rail market. Nothing short of a sweeping revision of the outmoded regulation hanging over the industry is likely to alter this trend.

Nevertheless sight should not be lost of the opportunities for intelligent and lucrative investment. An indirect stake in almost every industry can be purchased through comitments in diversified rails with a continuity of income. Fortunes have been made in past years by students of the group, and there is no reason to believe that it may never happen again.

Given a modern regulatory climate, future periods could well see a reversal of the industry's current state. Don't sell the industry short.

Atchison's strong fundamental position, rising traffic trend and growing other income give the stock appeal for the coming year.

Northern Pacific, Union Pacific, and Southern Pacific are situated to record further improvement in 1959 while their secure dividends give a nice return with a possible dividend increase by the latter.

Great Northern, even though a merger with Northern Pacific may be distant, should not be overlooked in light of its strong credit, physical makeup and good management.

Chesapeake & Ohio, Norfolk & Western & Virginian, all good income paying roads, will move a better volume of coal in 1959 and are issues generally found among diversified stock portfolios. Consolidation studies announced between the latter two roads is an added long term kicker.

Southern Railway, Atlantic Coast Line and Seaboard should have better earnings next year while the latter two roads are also carrying out merger studies. In the meantime their growing operating territory and improved traffic outlook make the shares attractive holdings.

Chicago, Rock Island & Pacific is moving into a position to score worthwhile earnings gains in 1959 while a growing piggyback operation and opening of the St. Lawrence Seaway in 1959 are other plus factors.

The **New York Chicago & St. Louis** (Nickel Plate) has been mentioned as a merger candidate with the Chesapeake & Ohio while its strategic location suggests worthwhile traffic and earnings gains this year. The $2.00 dividend provides a good return at current levels.

Gulf Mobile & Ohio has restored dividend payments while operating economies and a rising traffic trend suggest earnings improvement in 1959.

Illinois Central can record sharp earnings recovery in the current year and dividend improvement is indicated over its present $2.00 rate too.

The **Chicago, Milwaukee, St. Paul & Pacific** has recently come under the influence of new share interests while present management holdings are also large. Only time will tell what the outcome of this latest move will amount to. In the interim the shares are speculative although prospects are somewhat better.

Chicago & Northwestern, the Milwaukee's next door neighbor, continues to record internal improvement and is close to paying its junior bondholders some back interest. While this situation is too speculative for the average investors it could pay off in time.

Kansas City Southern can make money even when general business is rough. It is a good grade rail.

Louisville & Nashville can show worthwhile earnings improvement for next year. An excellent management, good property and sizable cash position are noteworthy features as well as its $5.00 dividend.

St. Louis & San Francisco with its tax amortization feature for next year, improved traffic outlook and the kicker provided through its holdings of New Mexico & Arizona Land and **Central of Georgia Rwy.**, appears to offer interesting speculative possibilities.

Denver & Rio Grande Western could be a candidate for a higher dividend in 1959. An able management, good territory and prospects for earnings improvement give the stock attraction.

Western Pacific's good earnings showing this year will have the aid of lower taxes that next year might be hard to duplicate. The $2.00 dividend, however, is secure and the stock looks better held than switched.

Shares of such Eastern railroads as **Delaware, Lackawanna & Western, Erie, Lehigh Valley, New York Central, N. Y. New Haven & Hartford, Pennsylvania, Reading,** at best can be labelled speculations for the nimble trader.

Missouri Pacific will be relieved of a mandatory charge ahead of dividends beginning in 1959 while increased ownership of **Texas & Pacific Rwy.** pave the way for consolidation of both companies' accounts. These features, combined with traffic improvement, suggest higher earnings for 1959 and likely dividend improvement for the common class "A" shares. END

For Profit and Income

(Continued from page 361)

priced as a growth stock around 73, or about 27 times estimated 1958 earnings in the vicinity of 1957's $2.68 a share, yielding less than 2.8% on a $2 dividend. Earnings have risen about 78% in the last nine years, which is by no means sensational; and have varied only slightly during the last four years. The stock appears over-priced.

Down

Reflecting profit taking, possibly including sales by investment trusts in some cases, the following stocks are down considerably from 1958 highs: Aluminimum, American Cynamid, Bell & Howell, Bethlehem Steel, Boeing, Deere, Grace, Halliburton, Kennecott Copper, Parke Davis, Pfizer, Royal Dutch, Lehigh Portland Cement, Litton Industries, Polaroid, and Sun Oil.

Meat Packers

Meat packers are more interested in the meat-animal cycle than the business cycle. They fare best on plentiful supplies for slaughter, at lower prices — provided the latter do not involve heavy year-end inventory losses. With the exception of Swift, profits of the principal companies improved moderately (from low year-ago levels) in the fiscal year ended October 31. They figure to gain more this year because of an increased hog supply, with beef and lamb supply little changed. But the market has for some time been discounting the hopeful prospect quickly and liberally. Meat-packer stocks are not cheap on likely current-year earnings; and are high on average earnings.

Socony Mobil Oil

Net for 1958 may be around $3.60 a share, against 1957's $4.56. Although the 1957 year-end extra of 50 cents was omitted this year, the $2 regular dividend is secure. The stock has been under tax-selling pressure. Around 47, off from 1956 high of 66, it should be subject at least to a material rally. It is selling at quite a bit more than it past normal discount below Jersey, Standard of California and other international oils. END

Answers To Inquiries

(Continued from page 368)

tion to take full advantage of the expanding economy which now seems assured for the year ahead.

The company maintains manufacturing facilities in Towson and Hamstead, Maryland; Harmondsworth, Middlesex, England; Rockville, Ontario, Canada; and Croydon, Victoria, Australia.

Fluor Corporation

"Please indicate the nature of Fluor Corporation's business and whether the industries served would indicate favorable prospects for the company."

I. O., Dallas, Texas

Fluor Corporation, Ltd. serves the chemical, petroleum refining and petrochemical and electrical utility industries with engineering and construction services and manufacturers' special equipment. The heavy goods industry is cyclical in character and earnings are subject to wide swings.

The Fluor Corporation, Ltd. reported estimated consolidated net earnings of $1,911,000 for the fiscal year ended October 31, 1958, equivalent to $2.41 a share on the 792,577 shares of capital stock presently outstanding. This compares with net earnings of $2,632,672 at October 31, 1957, or $3.32 a share adjusted to the presently outstanding shares.

Consolidated net sales were approximately $120,517,000, compared with $152,432,935 in 1957. Sales and earnings for 1958 were the third highest in the engineering-construction company's history.

Fourth quarter sales of approximately $31,747,000 resulted in net earnings of about $543,000, equivalent to 69 cents a share, compared with sales of $36,805,000 and net earnings of $634,000, or 80 cents a share, on an adjusted basis, for the equivalent three months in 1957.

Fluor estimates that total consolidated provision for federal and foreign taxes on income was $2,188,000, compared with $2,968,730 in 1957. Other provisions for state, local and social security taxes amounted to $1,500,000, compared with $1,785,566 in 1957.

Backlog of uncompleted work at October 31, 1958 was approximately $141 million, compared with $150 million reported at the close of the previous fiscal year. In accordance with the president's statement, "in general, 1958 was a good year for the corporation, with both sales and earnings continuing at a very satisfactory level despite reduced capital expenditures by the petroleum, chemical and power industries." "We do not expect capital spending by these industries to increase appreciably until the second half of 1959. Therefore, Fluor sales and earnings should be lower than those reported for 1958,' added the corporation's chief executive.

The board of directors declared the regular quarterly dividend of 30 cents a share payable January 23 to stockholders of record January 7, 1959. Total dividend payments in 1958 were $1.20 per share, a moderate increase over the $1.05 a share paid in 1957.

An interesting acquisition of the Fluor Corp. Ltd. in recent months was the purchase of the assets of Summerbell Roof Structures (a California corporation), one of the nation's largest manufacturers of glued-laminated timber products and wood roof trusses.

Summerbell Roof Structures has become a division of Fluor Corp. Ltd.

This acquisition added an important new companion line to Fluor's wood manufacturing business, which includes cooling towers, tanks, wood stave pipe and pole-line crossarms. Fluor foresees excellent prospects for growth in sales and profits within the glued-laminated timber construction industry.

Realities of 1959 Markets

(Continued from page 331)

government mainly by the Democrat Congress, with the Eisenhower influence largely destroyed? How reckless and ruthless with the labor unions be in fighting for inflation-generating wage boosts? The latter may be answered in part by the outcome of a likely mid-year steel strike. It might be long and costly. It alone could be enough to put a crimp in the presently predicted 1959 recovery in industrial activity and profits.

(Please turn to page 386)

Forecast Stocks Were Among 1958 Market Leaders

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In June we launched a new investment campaign with recommendations of one aviation stock and two rails. These three stocks have since advanced 33⅝ points to score appreciation of 30.3%, outstripping the rise in the general market. We expect further good profits in these issues.

But quite aside from these profitable selections, some of the stocks in our open position since the start of 1958 have been *outstanding performers*. For example, our Reynolds Tobacco B, which we advised all subscribers to buy at 55⅝, has recently topped 90 and boosted the dividend.

American Chicle which we recommended at 43¾ reached 107 after announcement November 5th, of proposed 2-for-1 stock split plus the increased extra dividend.

International Telephone & Telegraph is now 60¾ and a 2-for-1 stock split was proposed December 12. This stock closed 1957 at 29⅜, so it has advanced over 85% in 1958.

Among other Forecast stocks whose appreciation in 1958 has been more than double that of the market is Southern Railway which began the year at 30½ and recently hit a high of 55, also up 83%.

JOIN IN OUR NEW PROGRAM — LOOKING TO 1959

By enrolling now you will receive the names of all our new and coming recommendations. Once you buy them you will have the security of knowing that we will advise you from week to week in our bulletins just how long each stock should be retained—when to take profits and where and when to reinvest.

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Realities of 1959 Markets

(Continued from page 384)

The heretofore bullish supply-demand balance in the stock market is not a fixture, regardless of the importantly increased role of institutional investment in common stocks. As the fact of overvaluation, and the limitations in the 1959 picture, are increasingly recognized, demand for stocks will be reduced. It has already become less aggressive in recent weeks, with the further net rise of the market since mid-November small.

At a high level, the supply of stock for sale figures to increase. More people become willing to take profits, regardless of the capital gains tax. More institutions raise their holdings of cash or equivalent. More big secondary offerings of shares have to be absorbed. More companies elect to sell new stock issues to meet capital needs.

The idea that the market cannot decline appreciably, so long as no business recession is in sight, will not stand examination. With no recession in sight, the industrial average had a maximum fall of 63 points (about 12%) between August and November in 1956. With no recession in sight, earnings up nicely and the cost of living rising briskly, the average fell about 23% in June-October, 1946. Other examples of psychological-technical adjustments of some importance could be cited.

The case for "long-pull growth" in this country seems impressive. It always has been. But we will not have growth without interruptions, and without emphasis on efficient production and sound money. If people are right in expecting considerable long-range inflation, that is not basically bullish. It would mean pricing ourselves out of world markets. It could largely destroy our claim to economic, diplomatic and moral leadership of the free world. All past history, and contemporary distress in Spain, Argentina, Brazil and elsewhere, indicate nothing but evil in inflation.

Selective stock buying opportunities will come in 1959. At this stage caution in portfolio management is suggested.

—Monday, December 29.

★★★ Book Reviews ★★★

Prosperity and Depression

By GOTTFRIED HABERLER

Revised Edition

In this volume the Department of Economics of Harvard University reprints the famous work of one of its distinguished members. The first edition of Professor Gottfried von Haberler's *Prosperity and Depression* appeared in 1937. Almost immediately it established itself as a classic of business cycle literature. It has since gone through three editions (and now a fourth) and has been translated into Japanese, Swedish, Spanish and German. An eclectic view of business cycle literature, it has taught and influenced the thinking of countless students in many lands.

Whether the business cycle is manageable or unmanageable is subject to debate, but there is no question that the problems is still with us. For anyone who seeks a professional understanding of the causes of business fluctuations this book is indispensable. No other book so thoroughly covers the literature or so competently classifies the different theories. And the various editions, including material freshly incorporated in this one have brought the book abreast of the Keynesian Revolution and subsequent discussion.

Gottfried von Haberler is Professor of Economics and Galen L. Stone Professor of International Trade at Harvard University.

Harvard Economic Studies, 105

Harvard University Press $6.00

Expense Account

By JOE MORGAN

Peter Cody, sales promotion manager for the Cartwright Tool Company, lived by the plush standards of the expense acount on weekdays, entertaining at the Stork Club, Pump Room, and in executive suites. Weekends he returned to suburbia, to his wife, Linda, and their four, all-too-normal children.

Peter knew his growing dissatisfaction with his split-level life was caused by a chronic split pocketbook. But he did not realize the actual danger to himself and his family until he became entangled in a crisis that threatened his job and his marriage.

Alix Cartwright, glamorous divorcee and daughter of the company's deceased owner, decided to become active in the business. She was welcomed uneasily, and Peter was named to assist point of company politics, and Peter found himself a sitting duck for converging rivalries as well as the object of her attentions. In a series of unexpected developments, Peter—after his wife walked out on him at a brawling convention—made some surprising and satisfactory moves.

Expense Account is a realistic yet humorous and entertaining novel of a man caught between high living on the expense account and a tight budget at home. It will evoke a strong response in every reader.

Random House $3.75

The Three Edwards

By THOMAS B. COSTAIN

Between the first sentence of the three Edwards, "*The Crusades were running down like an unwound clock,*" and the last, "*Then she stole away on noiseless feet,*" lie one hundred years of taut, color-packed English history. They were the years 1272-1377, years resplendent with stories of heroism, of the Scottish wars and William Wallace and Robert the Bruce, of the great battles in the Hundred Years' War; dramatic with stories of illicit loves, of conspiracies, and of executions. But at the heart of all the stories is the story of the great Plantagenet family—their tragic and glorious wars, the uproars they caused in England and Europe, their wives and mistresses, and the broods of beautiful children they brought into the world. And behind this story, a mass of fascinating information about the times, the habits, the inventions, the arts, the authors, the builders, the merchants, the churchmen of thirteenth- and fourteenth-century England.

The first of the Plantagenet Edwards gave England her parliamentary government, her well-ordered legal system, and her victories over the proud Scots. The reign of the enlightened and popular Edward I was a vibrant spring after the long, dark winter of the Middle Ages.

But the glory England achieved under Edward I was lost when Edward II ascended the throne. Born with a sinister and fatal flaw of character, Edward II all but destroyed the great kingdom he had inherited and left behind him a diastrous history of chaos, farce, and tragedy. His most important contribution to his country's welfare was his son—who became Edward III.

In Edward III, England again had an energetic ruler who, as he swept away his father's shameful memory, built up a lucrative trade with Flanders and waged a wily diplomacy with France, culminating in the Hundred Year's War. Here, too, was a time of color and action marked by the establishment of the Order of the Garter and the great victory over the French at Crécy — where Edward proudly watched the young Black Prince carry the fight.

Thomas B. Costain has filled this brilliant historical study with all the sound and fury of brave deeds, the gripping suspense of plot and counterplot, the glitter of pomp and pageantry. In telling of the three Plantagenet Edwards, Thomas B. Costain has woven history's multicolored threads into a sumptuous narrative tapestry which reveals, in rich and exciting detail, the beginnings of the modern age.

Doubleday $4.75

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